





# HOME OIL COMPANY LIMITED

## ANNUAL REPORT 1977

### CORPORATE PROFILE

Home Oil Company Limited, incorporated as a Dominion Company in 1929, is an independent Canadian oil and gas exploration and production company with its headquarters in Calgary, Alberta. Subsidiary offices are located in Tulsa, Oklahoma, Houston, Texas and London, England. Exploration activities are world-wide, with the heaviest concentration in Canada and the United States. The Company's major producing properties are located in Alberta. Production is also obtained from properties in British Columbia, Saskatchewan and various States within the United States. The Company operates and has ownership in two major pipeline systems and six gas processing plants, as well as interests in 16 other gas processing plants within Alberta and British Col-

umbia. The Company has a 50 per cent interest in a natural gas liquids (LPG) fractionation plant and underground storage facility at Hardisty, Alberta and owns a large underground facility for the storage of LPG's in Kansas. Home and its United States subsidiary market LPG's in both Canada and the United States. The Company does not engage in refining or retail marketing of gasoline. Other major corporate assets of Home include a 20 per cent partnership interest in a semi-submersible drilling vessel, an investment in TransCanada PipeLines Limited, substantial undeveloped coal reserves in south-western Alberta and south-eastern British Columbia and a silver-gold mine near Reno, Nevada.

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### SHAREHOLDERS' MEETING

The annual and special general meeting of shareholders will be held at 11 a.m., May 3, 1978, in the Marquis Room of The Palliser Hotel, Calgary, Alberta.

### SUPPLEMENTARY INFORMATION

The Company files annually with the United States Securities and Exchange Commission a report on its operations known as the Annual Report on Form 10-K. The Company also publishes annually a statistical supplement. Copies of this supplement and the SEC Form 10-K are available free of charge upon written request to: E. Jorgensen, Comptroller, Home Oil Company Limited, 2300 Home Oil Tower, 324 Eighth Avenue South West, Calgary, Alberta, T2P 2Z5

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## DIRECTORS

### \*ANTHONY G. S. GRIFFIN (Toronto, Ontario)

Chairman of the Boards of the Company, The Commercial Life Assurance Company of Canada, The Halifax Insurance Company, Scurry-Rainbow Oil Limited.

Director: Canadian Corporate Management Co. Ltd., Canadian Industries Limited, The Consumers' Gas Company, ICI Americas Inc., National Film Board, Raymond International Inc., United Dominions Corporation (Canada) Limited, Victoria & Grey Trust Company, S. G. Warburg & Co. International Holdings Limited.

### BRIAN A. CARLISLE, C.B.E. (London, England)

Director: Home Oil (U.K.) Limited, Scurry-Rainbow (U.K.) Limited.

### GEORGE W. CARPENTER (Toronto, Ontario)

Executive Vice-President and Director of The Consumers' Gas Company.

President and Director of Tecumseh Gas Storage Limited.

### \*GEORGE E. CREBER, Q.C. (Toronto, Ontario)

President and Chief Executive Officer and Director of The Consumers' Gas Company.

President and Director of Cygnus Corporation Limited.

Director: Canada Trustco Mortgage Company, The Canada Trust Company, Chubb Industries Limited, Rothmans of Pall Mall Canada Limited, Scurry-Rainbow Oil Limited, Shaw & Begg, Limited.

### \*J. DOUGLAS GIBSON, O.B.E. (Toronto, Ontario)

Chairman of the Board of The Consumers' Gas Company.

Chairman of the Board and Managing Director of Cygnus Corporation Limited.

Chairman of the Boards of Canadian Reinsurance and Canadian Reassurance Companies.

Director: Bell Canada, Harding Carpets Limited, The Imperial Life Assurance Company of Canada, Moore Corporation Limited, National Trust Company Limited, North American Reinsurance and North American Reassurance Companies, Northern Telecom Limited, Scurry-Rainbow Oil Limited, Steel Company of Canada Limited.

### \*†THE HON. HARRY W. HAYS, P.C. (Calgary, Alberta)

Rancher.

Member of the Senate of Canada.

Director: Canada Permanent Companies.

### †HENRY F. LEMIEUX (Houston, Texas)

Chairman of the Board and President and Chief Executive Officer of Raymond International Inc.

Director: Texas Commerce Bancshares, Inc.

### #PETER L. P. MACDONNELL, Q.C. (Edmonton, Alberta)

Partner, Milner & Steer, Barristers and Solicitors.

Director: Alberta Energy Company, The Alberta Gas Ethylene Company Limited, The Alberta Gas Trunk Line Company Limited, CAE Industries Ltd., Canadian Utilities Limited, Diamond Shamrock Alberta Gas Ltd., Edmonton Broadcasting Company Limited, IU International Corporation, The Royal Bank of Canada, J. Henry Schroder & Co. Limited, Western Supplies Limited.

### \*W. DONALD C. MACKENZIE (Calgary, Alberta)

President, W. D. C. Mackenzie Consultants Ltd.

Chairman of the Boards of Easton United Securities Limited, Scott United Securities Limited.

Director: Hudson's Bay Company, Siebens Oil & Gas Ltd.

### MAURICE P. PAULSON (Calgary, Alberta)

Executive Vice-President and General Manager of the Company.

Director: Scurry-Rainbow Oil Limited.

### \*ROSS F. PHILLIPS, F.C.A. (Calgary, Alberta)

President and Chief Executive Officer of the Company.

President and Director of Scurry-Rainbow Oil Limited.

Director: Calgary Power Limited, The Commercial Life Assurance Company of Canada, The Consumers' Gas Company, Crown Trust Company, The Halifax Insurance Company.

### \*#A. ROSS POYNTZ (Toronto, Ontario)

Director: The Consumers' Gas Company, The Imperial Life Assurance Company of Canada.

### †ARTHUR M. SHOULTS (Vancouver, British Columbia)

President and Chief Executive Officer of B.R.E. Electric Ltd.

Chairman of the Boards of Comcore Communications Limited, CHQT Broadcasting Ltd.

Director: Banister Continental Ltd., Chester Industrial Tool Supply Ltd.

### †#WILLIAM H. ZIMMERMAN, Q.C. (Toronto, Ontario)

Vice-Chairman of the Board of Eaton Group of Mutual Funds.

Director: The Becker Milk Company Limited, The Consumers' Gas Company, Inter-Provincial Diversified Holdings Ltd.

\* Member Executive Committee

† Member Audit Committee

° Member Compensation and Human Resources Committee

# Member Pension Plan Committee





*A. G. S. Griffin, M. P. Paulson, R. B. Coleman, R. F. Phillips*

## OFFICERS

### **A. G. S. GRIFFIN**

Chairman of the Board

### **R. F. PHILLIPS**

President and Chief Executive Officer

### **M. P. PAULSON**

Executive Vice-President and General Manager

### **R. B. COLEMAN**

Senior Vice-President and General Counsel

### **J. P. CRONE**

Group Vice-President, Corporate

### **J. H. GEDDES**

Group Vice-President, Operations

### **W. H. WADDELL**

Group Vice-President, Exploration

### **F. C. FINN**

Vice-President, Mining

### **W. D. LUNDBERG**

Vice-President, Producing Operations

### **B. F. MacNEILL**

Vice-President, Finance

### **B. J. TODESCO**

Vice-President, Law

### **C. B. CLARK**

Secretary

### **D. E. DEAKIN**

Treasurer

### **E. JORGENSEN**

Comptroller

### **T. S. HOAR**

Assistant Secretary

### **F. G. MITCHELL**

Assistant Secretary

### **J. A. PETTY**

Assistant Treasurer





*J. H. Geddes, J. P. Crone, W. H. Waddell*

## HIGHLIGHTS

|  | 1977          | 1976          |
|--|---------------|---------------|
| <b>FINANCIAL</b>   |               |               |
| Gross Operating Revenue . . . . .                          | \$139,020,000 | \$119,861,000 |
| Net Earnings Before Extraordinary Items . . . . .          | \$ 38,342,000 | \$ 30,436,000 |
| Per Share . . . . .  | \$ 4.68       | \$ 3.73       |
| Net Earnings After Extraordinary Items . . . . .           | \$ 36,997,000 | \$ 30,436,000 |
| Per Share . . . . .  | \$ 4.52       | \$ 3.73       |
| Dividends Declared . . . . .                               | \$ 6,764,000  | \$ 5,104,000  |
| Per Class A Share . . . . .                                | \$ 0.82½      | \$ 0.62½      |
| Per Class B Share . . . . .                                | \$ 0.82½      | \$ 0.62½      |
| Working Capital at December 31 . . . . .                   | \$ 21,090,000 | \$ 53,470,000 |
| Exploration Expenditures . . . . .                         | \$ 75,345,000 | \$ 36,486,000 |
| Development Expenditures . . . . .                         | \$ 17,359,000 | \$ 17,319,000 |
| <b>OPERATING*</b>  |               |               |
| Crude Oil Production — Barrels Per Day . . . . .           | 29,532        | 30,941        |
| Natural Gas Liquids Production — Barrels Per Day . . . . . | 4,081         | 4,018         |
| Natural Gas Sales — Million Cubic Feet Per Day . . . . .   | 115.2         | 119.2         |
| Sulphur Sales — Long Tons . . . . .                        | 50,963        | 47,211        |
| Pipeline Gatherings  |               |               |
| Federated Pipe Lines Ltd. — Barrels Per Day . . . . .      | 247,612       | 262,559       |
| Cremona Pipeline Division — Barrels Per Day . . . . .      | 41,386        | 40,978        |
| Proven Developed Reserves at December 31                   |               |               |
| Crude Oil and Natural Gas Liquids — Barrels . . . . .      | 129,416,000   | 140,816,000   |
| Natural Gas — Thousand Cubic Feet . . . . .                | 785,324,000   | 758,578,000   |
| Sulphur — Long Tons . . . . .                              | 1,442,000     | 1,303,000     |
| Exploration Acreage at December 31                         |               |               |
| Gross Acres . . . . .                                      | 34,363,000    | 36,264,000    |
| Net Acres . . . . .  | 6,971,000     | 7,451,000     |

\* Daily Production and Proven Reserves shown as Company's share before deduction of royalties and minority interests in subsidiary companies





## REPORT TO THE SHAREHOLDERS

### Financial

Home Oil Company Limited continued in 1977 to set new records for gross revenue, cash flow, earnings, dividends and capital reinvestment. Your Company's continuing success depends to a large extent upon the capabilities and technical expertise of its employees. We thank them for their loyalty and hard work which in no small way made 1977 a remarkable year.

The industry is operating at a high level of activity and, as a result, our 1978 budget calls for the capital spending of \$115 million, double the amount spent two years ago. Oil and natural gas exploration will account for \$75 million and includes direct participation in an estimated 160 exploratory wells. We will also be participating in other wells through farmouts of our existing lands which will not require cash outlays.

Development expenditures are budgeted at \$32 million, with additional outlays planned for mineral exploration and development and other projects as your Company continues to diversify its revenue base in other resource-related activities.

### Exploration

The Pembina area, in which your Company made two new oil discoveries, continues to excite the industry. It is rare in the Canadian oil scene to witness the intense industry activity which has occurred in this play. It is apparent that reserves of considerable importance are indicated but the overall potential cannot be determined until further drilling has taken

place. As we advised our shareholders previously, our holdings in the area are the subject of a lawsuit commenced by another operator. We shall continue to keep our shareholders advised of any important developments concerning the litigation. Counsel to the Company has advised that in its opinion this suit is without merit.

In addition to having significant landholdings in Pembina, your Company is also a major landholder in the Elsworth - Beaverlodge area, which has developed into the second major exploration area of Alberta. We have also made promising discoveries in the foothills of Alberta, in British Columbia and in the United States.

### Production

As in recent years, the rate of crude oil production from existing fields continues to decline with time. However, we believe there is considerable potential to increase crude oil reserves in some of our fields by the implementation of enhanced recovery projects. This year Home expects to implement a pilot tertiary recovery project in Swan Hills Unit No. 1, our largest producing oilfield and one of the largest fields in Canada, and with development proceeding at Pembina, West Eagle and Leismer, we expect higher crude oil and natural gas production.

### United States of America

We plan to spend \$13 million in 1978 on exploration in the United States, financed primarily by revenues generated by our production, storage and marketing



operations there. These operations showed substantial progress in 1977 and we have recorded recent gas discoveries in Louisiana and onshore and offshore Texas. This gas will come to market shortly at "new" gas price levels and will add substantially to our cash flow.

### Mining

Further evaluations of our metallurgical coal reserves at Elk River, British Columbia, have now been completed. Although work will continue, the recession in the world steel industry will undoubtedly delay the commencement of the project.

The Santa Rita silver - antimony mine in Mexico was in operation for the entire year but its performance has been very disappointing. The mine failed to achieve the designed ore production rate and this, combined with the collapse of the world antimony market, resulted in the mine operating at a substantial loss with an adverse effect on Home's 1977 earnings. At year end it was decided to make a provision for the write-down of this investment to the estimated salvage value of the underlying assets.

Construction was completed and production commenced at the Company's Gooseberry silver - gold mine near Reno, Nevada. Production from this mine is steadily increasing and should contribute to cash flow in 1978.

### Other Projects

The outlook for our proposed storage project near the Strait of Canso, Nova Scotia, continues to improve. The governments of Canada and the United States are now seriously studying the proposal and it is hoped that decisions will be reached during 1978.

### Corporate

With the January 1, 1978 payment Home increased its semi-annual dividend to \$0.45 per share from \$0.37 1/2 per share. This increase was in keeping with the limitations imposed by the Federal Government's Anti-Inflation Program. We are conscious that most investors today desire increased dividends and, because of this, our dividend policy is continually reviewed in light of the Company's earnings and capital requirements.

A number of senior executive appointments were made during the year. Mr. J. P. Crone was appointed Group Vice-President, Corporate, Mr. J. H. Geddes was appointed Group Vice-President, Operations, and Mr. W. H. Waddell was appointed Group Vice-President, Exploration.

The Company records with regret the death last year of Mr. Renault St-Laurent, Q.C., LL.D., who served as a Director of your Company since 1966.

At the Annual and Special General Meeting the shareholders will be asked to approve a reduction in the size of the Board of Directors from 15 to 14 members.

The recent tender offer for all of the shares of Bridger Petroleum Corporation Ltd. is progressing satisfactorily, with over 90 per cent of the Bridger shares tendered to date. This corporate acquisition of additional natural resource reserves and exploration acreage will broaden the Company's exposure in these areas at a time when such assets are difficult and costly to obtain and will enhance the cash flow of Home when the results of Bridger's operations are added to those of the Company commencing March 1, 1978.

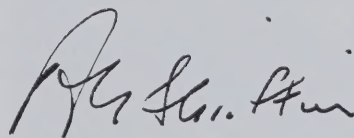
### Outlook

We are optimistic about your Company's future. We expect continued increases in earnings and cash flow in 1978 as a result of higher prices, increased production and improvements in our mining operations. Our accelerated exploration program is now producing positive results.

Recent discoveries have only been reflected to a minor extent in the reserves classified as proven developed. We are confident we have established additional reserves of oil and gas in both Canada and the United States which will be added to the proven category in the near future as further delineation drilling takes place and production history is obtained.

Our land position is strong with exposure in many key exploration areas. The value of our land inventory has increased significantly over the past year and we expect this trend to continue. In addition, we are in an excellent position to finance our short and long term objectives.

Submitted on behalf of the Board of Directors.



Chairman of the Board



President and Chief Executive Officer

Calgary, Alberta  
March 8, 1978





## EXPLORATION

In its 1977 drilling program Home and its subsidiaries had a working interest in 166 wells and a farmout or royalty interest in a further 77 wells. Of the 243 wells drilled 122 were exploratory and 121 were development wells. The majority of wells, 139, were drilled in Alberta and of these 65 were exploratory and 74 were development wells. This activity demonstrates the favourable economic environment for exploration in this province. Twelve exploratory and 20 development wells were drilled in British Columbia and it is anticipated that activity there will increase in the future in response to the significant improvement in exploration economics in that province. Some 56 wells were drilled in the United States where emphasis has been placed on Gulf Coast projects. Two wells were drilled in the Canadian Arctic, seven in Saskatchewan and seven in foreign areas.

Exploratory drilling resulted in five oil and 52 gas discoveries and 48 dry holes. At year end 17 wildcat wells were drilling.

The development drilling program resulted in 20 oil wells, 71 gas wells and 19 dry holes; at year end 11 development wells were still drilling.

At the beginning of 1977 the Company held a land inventory of 36,264,438 gross acres (7,451,286 net acres). This inventory was, for the most part, maintained during the year with additions in Alberta, British Columbia, Thailand and Tunisia, offset by conversion of permits to leases in British Columbia and by surrenders in the Northwest Territories and Quebec. In the United States the Company added to its holdings in Arizona, Arkansas, Louisiana, Texas

and Wyoming and reduced its holdings in Alaska, Montana and North Dakota. On December 31, 1977, the Company's land inventory stood at 34,363,220 gross acres (6,971,174 net acres).

## HOME OIL COMPANY LIMITED

### Alberta

Principal 1977 exploration activities were concentrated within Alberta with substantial increases in seismic data acquisition, exploratory drilling and, in particular, land purchases. During the year emphasis shifted from the foothills and deeper Alberta basin to the shallower basins of western and north-western Alberta, as a result of the more attractive exploratory prospects in the latter areas. Evaluation of the foothills and deep basin areas is continuing at a slower pace, but this will accelerate when the shallower regions have been explored more thoroughly.

In the gas-prone areas of Leismer and Chisholm - Akuinu within the Alberta plains, the exploratory drilling resulted in six gas wells and three dry holes during the year. Significant gas reserves have been established in both areas and Chisholm - Akuinu will be on initial production in 1978 with Leismer production scheduled for 1980. Home is maintaining an active drilling program in the Leismer area to develop gas reserves and to evaluate the oil sands lying beneath the shallower gas. Some 19 wells will be drilled in this prospect in the winter of 1977 to 1978.

Considerable attention has been given in recent months to the Elworth - Beaverlodge area of north-western Alberta because of the very volatile land pur-



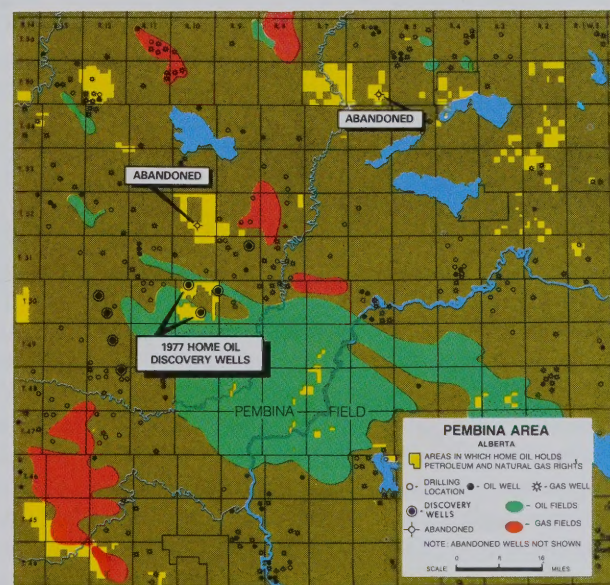
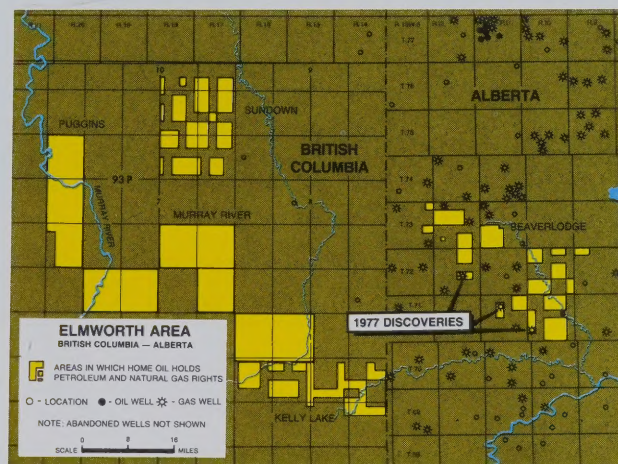
chasing activity by a number of operators and several, apparently significant, gas discoveries in Cretaceous and Triassic sands. Industry estimates of the potential recoverable reserves in the area range between one and five trillion cubic feet. Home has varying interests in some 47,040 gross lease acres on the north-eastern edge of this play and drilled four tests on the prospect during 1977. The gas-prone formations across this prospect area vary significantly in productive capacity and, although gas is present over a broad region, the economic viability of the three tests, which Home has completed as potential gas wells, has not yet been confirmed and further testing will be required. This is an area where, in addition to the shallower gas, substantial deep potential exists. The initial seismic evaluation of this area will be undertaken in 1978.

The Pembina area of Alberta has been the scene of intense industry activity since mid-1977 and the publicity this play has attracted is a strong indication of its future potential. Home has been an active participant in this play and by the end of 1977 had tripled its land position along the project trend to 111,600 gross acres. Home's initial drilling ventures on this play were by means of a 1977 farmout from a major operator and both wells drilled under provision of the earning agreement were significant discoveries in the Devonian Nisku formation. Concurrently with, and subsequent to, these discoveries, Home acquired a significant land position on this play at a series of Alberta land sales at varying costs, including an amount of \$18.2 million for Licence B-29 (8,960 acres) on November 29, 1977. At the same sale Home acquired a second parcel of 8,640 acres at a cost of \$3 million. It subsequently sold a one-third interest in both licences to another operator for one half of the original purchase price. The initial test on Licence B-29 spudded on January 9, 1978.

Home had up to five seismic crews operating in the Pembina area during much of 1977. Although its operation was reduced to three crews by year end, a joint venture with two other major operators was organized during the winter and this will significantly increase Home's ability to evaluate Crown reserve acreage likely to be offered for sale in 1978. Home has two drilling rigs under contract for the area and will add a third in the late spring of 1978. To these will be added rigs from the joint venture group. As a result Home and its partners will be in an extremely strong position to maintain the momentum on this play.

During 1977 activity was reduced within the foothills area as seismic crews, drilling rigs and technical expertise were diverted to the Pembina area. Home

has, however, maintained a relatively strong exploration position within the structural belt and during 1977 drilled five deep tests along this trend; at year end a sixth well was still drilling. Wells with significant potential were drilled at Moose Mountain and Narraway and further drilling on these structures is planned for 1978. Two additional wells were drilled on the Findley structure during the year. The overall potential of this structure, however, must await further production testing and delineation drilling. A well was spudded on the Brûlé structure in the last quarter of 1977 but, as this is a planned 12,000 foot test, total depth is not expected to be reached until the early part of the second quarter of 1978. In addition to this drilling activity, a very active reconnaissance seismic program was carried out in the first half of the year followed by an infill seismic survey in the second half.







Within the Alberta deep basin extensive seismic surveys were undertaken during the 1976 to 1977 winter season and attractive lands were acquired at provincial sales. This area has significant potential for major natural gas reserves within not only the Devonian section but also the shallower Paleozoic and Mesozoic strata. Two wells were spudded in the region during the year. A test in the Owl River area was drilled to 17,500 feet and completed in mid-summer as a gas well in a shallow zone. A Pinto well, spudded in mid-summer, will be taken to a depth of approximately 16,000 feet as a test of the Devonian Leduc reef, a zone which is productive of natural gas at a discovery well drilled by another operator in 1976 approximately four miles south.

Alberta, as of January 1978, revised its drilling incentive program in recognition of the rapidly escalating costs of wells drilled in the deeper parts of the Alberta basin, the structural belt and northern areas. At the same time, the province reduced the incentive on shallow wells which tend to be drilled essentially on gas prospects. This incentive, when coupled with the attractive prospects existing within this high risk area,

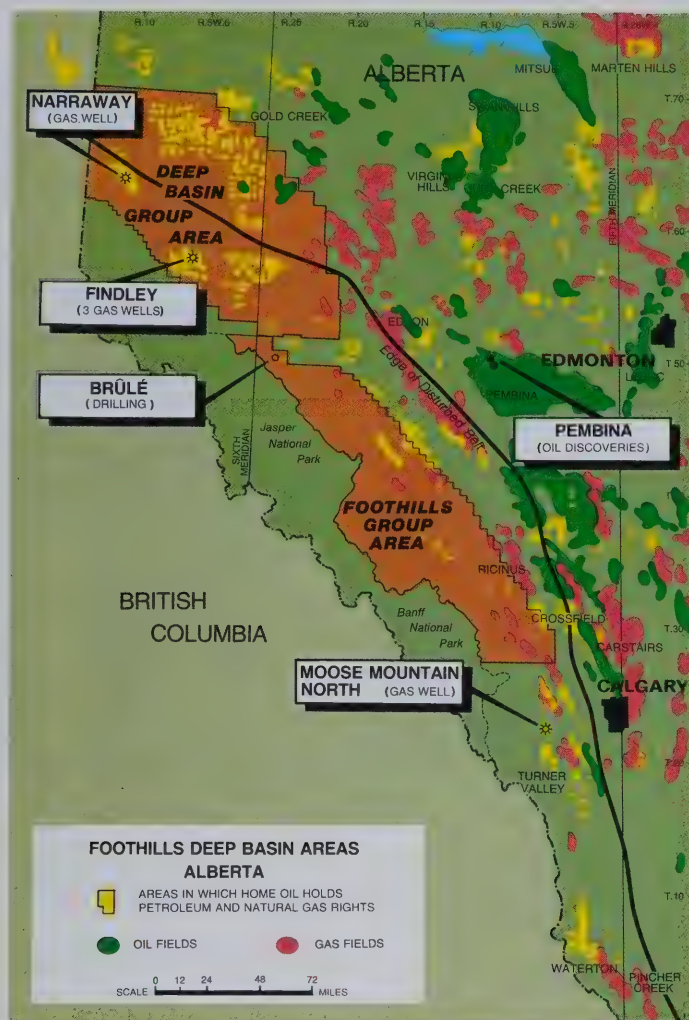
provides great motivation for Home to allocate a significant portion of its 1978 exploration budget to Alberta.

### British Columbia

The nature of geological prospects in British Columbia is similar to that existing within adjacent areas of Alberta and the prospects encountered in Alberta extend, in many cases, into the neighbouring province. The economics of British Columbia exploration are very attractive and while Home's 1977 level of operations in this province was considerably less than in Alberta, this is a temporary situation until Home's British Columbia land inventory is developed to a level adequate to sustain the desired program. During the year Home acquired 135,735 gross (33,896 net) permit acres of prospective land in this province, ending the year with a land inventory in British Columbia totalling 386,000 net acres as compared with 411,000 net acres in 1976. This acreage reduction resulted from lease selections from several permits.

Home did not participate directly in an exploratory well in British Columbia during 1977 and seismic ac-





tivity was limited to participation surveys. The major land acquisitions are in areas where extensions of the Elmworth - Beaverlodge gas play into British Columbia from Alberta overlap potentially significant deeper prospects. In January 1978 a major land purchase in British Columbia was made, complementing the existing land inventory in the area and drilling plans for 1978 are under way. These plans, however, depend upon rig availability.

### Canadian Frontier Areas

#### Northwest Territories

The final well of the four well Delta Five program was abandoned in March 1977 and Home's participation in the evaluation of the Mackenzie Delta area has, at least for the present, terminated. Future direct participation by Home in exploratory projects within the Arctic will depend, in part, upon stronger indications that there will be adequate access to southern markets.

#### East Coast

Home has agreed to certain work commitments which will earn it a five per cent interest in a 5,565,586 acre

permit offshore Newfoundland. Marine seismic and environmental work was undertaken in 1977 and present plans call for the drilling of the initial test on this deep water play in 1979.

### United Kingdom

Home and its partners were awarded two blocks in the Fifth Round Awards in the North Sea in mid-1977.

No drilling was undertaken on Home's landholdings in the North Sea.

### United States of America

Home's wholly-owned United States subsidiary, Home Petroleum Corporation, conducted an expanded exploration program during 1977 which concentrated on the state waters of Louisiana and Texas and the upper Gulf Coast areas of Louisiana, Mississippi and Texas. This activity, in a region of steadily rising gas prices, generated a number of very attractive gas prospects, which were ready for drilling in 1977. The most significant of these prospects, NE Chevron offshore Texas near Corpus Christi (Home 20 per cent), was under active exploration late in the





year and three successful Tertiary sand gas wells had been drilled by year end and a fourth was drilling. It is anticipated that, when fully developed, sufficient reserves will have been established to allow pipeline connection by early 1980. Other projects along the offshore Gulf Coast such as Apollo, Cosmo and Delta are either drilling or are in the final planning stages for drilling in early 1978.

Home Petroleum is also pursuing attractive prospects in east Texas (Mims Creek, a gas discovery in the Jurassic Bossier sand), in onshore Louisiana and in the overthrust belt of western Montana.

During 1977 Home Petroleum participated, either directly or through farmout, in 47 wells, of which 25 were exploratory and 22 were development wells. This activity resulted in 10 exploratory gas wells and eight dry holes; at year end seven wells were still drilling. The development drilling program resulted in 13 gas wells and three dry holes; at year end six wells were still drilling.

## Other Foreign Areas

### Australia

Home has obtained an interest in a farmout in Australia's Northwest Shelf. The initial well, located in the Vulcan Basin within the Timor Sea, spudded on January 21, 1978 and will be drilled to a depth of 10,000 feet. The well will earn Home a two and one half per cent interest in a two and one half million acre block upon which previous drilling has indicated

the presence of oil accumulations and a 10 per cent interest in a more restricted area in the vicinity of the initial well.

### New Zealand

Home is currently engaged in negotiations which, if successful, will allow Home the right to earn an undivided 11¼ per cent interest in a licence to be offered by the New Zealand Government covering an area lying within Tasman Bay offshore the South Island.

### Oman

Negotiations with another operator are under way with a view to farming out the Home Group's land holdings in the Gulf of Oman and these negotiations may be concluded early in 1978. The second well on this concession (Home 16¼ per cent) was abandoned in January 1977 at a depth of 8,508 feet after failing to find hydrocarbons.

### Thailand

Home's third well in the Gulf of Thailand, Texas Pacific et al 15-B-5X, spudded in April 1977 and was completed in May 1977 at a depth of 8,720 feet as a potential Tertiary sand gas well with in excess of 200 feet of net pay. With the drilling of this well, sufficient proven and probable gas reserves were established to allow the Home Group to initiate gas price discussions with Thai authorities. These discussions did not lead to agreement during the year but will continue in 1978. In the meantime, a fourth well on this prospect spudded on January 17, 1978 and is the last com-





mitment in the current licence term. The work program for the next licence period will commence sometime after a satisfactory gas price has been negotiated.

### **Tunisia**

Home participated in the drilling of the Murphy et al Carthage No. 1 well early in 1977, thereby earning a net 16 2/3 per cent interest in a permit covering a large part of the Gulf of Tunis. The well did not encounter hydrocarbons and the Home Group subsequently decided to farm out the concession on a seismic option basis. At year end a farmout agreement was being finalized.

### **Vietnam**

Negotiations continued towards the awarding of two blocks within the Saigon basin offshore Vietnam.

## **SCURRY-RAINBOW OIL LIMITED**

### **Alberta**

Scurry-Rainbow participated in a four well drilling program in the Gold Creek area. All four wells were cased as potential gas wells and production testing was in progress at year end. A fifth well spudded on December 29, 1977 and additional drilling is expected in 1978.

Scurry-Rainbow participated (33 1/3 per cent) in a Cadomin gas discovery drilled on its Sturgeon Lake acreage. Follow-up drilling to this discovery and drilling to evaluate the Devonian potential is anticipated following interpretation of data from a seismic program which commenced early in 1978.

Scurry-Rainbow has a 37 1/2 per cent interest in a 7,040 acre licence in the West Pembina area purchased in March 1977 and a seismic program is planned over this licence early in 1978.

### **British Columbia**

The main thrust of Scurry-Rainbow's drilling program in British Columbia was concentrated in the Fort St. John area. By year end eight wells, in which it had a 50 per cent interest, had been drilled to follow up a Belloy discovery drilled late in 1976 in the West Eagle area. Including the discovery well, eight wells had been completed as producing oil wells with the ninth well waiting on completion. Scurry-Rainbow also participated in three potential gas wells which were drilled immediately north of West Eagle oil production.





A program of step-out drilling was commenced in late 1976 in the Eagle area where six wells were drilled resulting in three oil wells, two gas wells and one abandonment. One of the gas wells is marginal and will likely be used as a water disposal well.

In an effort to expand its interests in the Fort St. John area, Scurry-Rainbow broadened its land position through purchases at Crown sales and through farm-in agreements. Three exploratory Belloy wells were drilled resulting in two abandonments and one new pool oil discovery eight miles north-west of the West Eagle pool. Follow-up drilling is planned for early 1978. Scurry-Rainbow has a 50 per cent interest in this discovery.

Scurry-Rainbow also participated in two potential gas discoveries outside the Fort St. John area. A well in the Parkland area, in which Scurry-Rainbow has a 25 per cent interest, was being production tested at year end. An indicated gas well in the Nig Creek area, in which Scurry-Rainbow has a 15 per cent interest, will be production tested early in 1978.

### United States of America

Follow-up drilling to a 1976 Mississippian gas discovery in San Juan County, Utah, has been delayed due to archeological considerations. However, it is hoped that further drilling will be permitted by mid-1978.

### United Kingdom Offshore

During the fall of 1977 a third well, 3/7-3, was drilled on Block 3/7, towards which Scurry-Rainbow contributed approximately 10 per cent of the costs. This

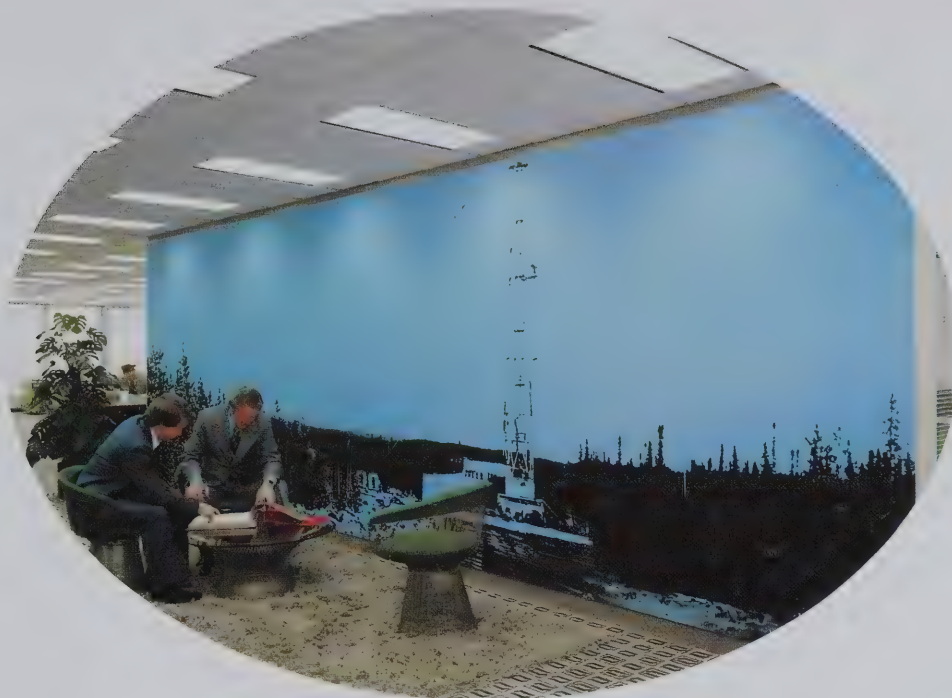
line well, supported in part by Block 3/12 licensees, found a non-commercial section of Middle Jurassic oil-bearing sandstone. Such confirmation of the presence of oil-bearing strata is encouraging for the southern portion of Block 3/7.

As required under the licence agreement, a tentative lease selection covering 50 per cent of Block 3/7 was submitted to the authorities late in December 1977.

### Netherlands Offshore

During 1977 Scurry-Rainbow participated (two and one half per cent) in two Danian Tests drilled on Blocks B/17 and F/12, both of which were unsuccessful. Scurry-Rainbow is a participant (two and seven tenths per cent) in P/15-2, an 11,250 foot Rot-liegendes Test which at year end was drilling below 7,000 feet.





## MINING

### Coal

The first-stage economic and feasibility studies on the Elk River, British Columbia coking coal properties, in which Home has a 15 per cent and Scurry-Rainbow a 10 per cent interest, were completed early in 1978 and a decision as to whether or not to proceed to the preliminary design stage will be made later in the year.

A preliminary review of the exploration data in these studies indicates the quantity of metallurgical and non-coking coal in place (including proven, indicated and inferred) is estimated at 4.974 billion short tons. Of these reserves, 258 million clean short tons of metallurgical and 191 million clean short tons of thermal coal are open pit mineable and a further 722 million clean short tons of metallurgical coal and 615 million clean short tons of thermal coal are estimated to be mineable by current underground mining methods. Before proceeding to the next planning phase of the project, however, consideration will have to be given to the future of the world steel industry, which in 1977 experienced a severe recession with a consequent reduction in demand for metallurgical coal.

Approval in principle has been received from the Alberta authorities on the application by Consolidation Coal Company and Scurry-Rainbow, in which each has a 50 per cent interest, to open a small open pit coal mine on Grassy Mountain near Blairmore, Alberta, and the applicants can now proceed to the public disclosure phase. This step has been deferred, however, pending studies of alternative mine plans which may prove economically more attractive because of the limited demand for metallurgical coal.

### Metallics

Disappointing production figures, low metal recovery rates and the unavailability of antimony markets yielded discouraging results for the operation of the Santa Rita mine in Mexico. A decision has been made, therefore, to shut down the mine and salvage the equipment.

Construction was completed and production commenced at the Gooseberry silver-gold mine near Reno, Nevada. It is anticipated that a production rate of 9,000 tons per month will be reached in 1978.

### Uranium

Concentrated efforts were made during 1977 to strengthen the Company's position in uranium exploration. Scurry-Rainbow purchased two claim blocks in the Elliot Lake region of Ontario where exploration had indicated the presence of uranium-bearing zones. Scurry-Rainbow also acquired a 20 per cent interest in a joint venture agreement in the western Okanagan area of British Columbia where soil geochem uranium anomalies have been encountered. Exploratory drilling will take place in 1978 upon two of three claim blocks in the Key Lake area of north-western Saskatchewan.

Late in 1977 Home entered into joint venture exploration agreements in two high potential uranium areas of the Northwest Territories with Uranerz Exploration and Mining Limited and Saskatchewan Mining Development Corporation, acquiring a 25 per cent interest in an exploration program in the Hornby Basin and a 17 per cent interest in a program in the Baker Lake/Thelon area.





## PRODUCTION

Production of crude oil and natural gas liquids (condensate, propane and butane), before the deduction of royalties and minority interests, averaged 33,613 barrels per day in 1977, a decrease of 4.0 per cent from the 34,959 barrels per day produced during 1976. Natural gas sales averaged 115.2 million cubic feet per day in 1977 compared with 119.2 million cubic feet per day in 1976. Sulphur sales for 1977 totalled 50,963 long tons compared with 47,211 long tons the previous year.

The scheduled reduction of oil exports to the United States resulted in reduced demand for crude oil. The overall decrease in natural gas sales resulted primarily from reduced nominations from Home's principal buyer combined with a decline in productivity in some of the Company's older fields.

Continued development of the Scurry-Rainbow Eagle and Beaverdam properties in British Columbia has resulted in encouraging increases in its crude oil and natural gas production. This trend is expected to continue in 1978 with the bringing into production of Home's recent West Pembina discoveries.

The continuing movement towards world prices for crude oil, initiated by the Federal and Provincial Governments, resulted in the basic price of crude increasing to \$10.75 per barrel in mid-1977, with a further increase to \$11.75 at the beginning of 1978. This price will be reviewed again in June 1978 by Federal and Provincial Government representatives. The weighted average wellhead price received by Home in 1977 for its Alberta production was \$10.417 per barrel before royalties.

In line with the Federal Government's policy of keeping gas prices in step with crude oil prices, the Toronto City Gate gas price was increased from \$1.505 per Mcf to \$1.680 per Mcf on August 1, 1977 and to \$1.850 per Mcf on February 1, 1978. This has resulted in an increase in Home's average wellhead price from \$0.98 per Mcf to \$1.27 per Mcf as at February 1, 1978. In addition, at year end a price adjustment of \$0.34 per Mcf for gas exported to the United States was being received by the Company. At year end the weighted average selling price for all of Home's gas was approximately \$1.42 per Mcf compared with \$1.09 per Mcf a year earlier.

Development of the Company's shut-in gas reserves continued throughout the year. A small plant capable of processing eight million cubic feet per day was placed in operation to handle production from the west side of the Home-operated South Marten Hills Unit No. 1, and at year end construction of a plant with a rated capacity of 10 million cubic feet per day in the Big Bend - Tieland area of north-central Alberta was completed with commencement of operations scheduled for early 1978. Development of the Company's gas reserves in the Leismer area had been started. This includes a 19 well drilling program during 1978 with construction of processing facilities to handle 12.5 million cubic feet per day gas sales commencing in March 1980.





## RESERVES

The Company's gross proven developed crude oil, natural gas liquids, natural gas and sulphur reserves at January 1, 1978 are summarized in the accompanying table. The Company's gross reserves are defined as the Company's share of reserves from working interests, overriding royalties and other beneficial interests but before the deduction of any royalty interest owned by others and minority interests.

Limited primary reserves of crude oil were included for discoveries in the West Pembina and Eagle areas, based on preliminary information available at year end. These additions were offset by downward revisions due to historical performance in the Pembina

Cardium and the Virginia Hills Beaverhill Lake pools and the production of 10.8 million barrels during the year, resulting in a net decrease of 9.7 million barrels in remaining proven reserves of crude oil. Development in the Leismer area and discoveries in the Moose Mountain, Naraway, Owl River and Beaverlodge areas resulted in net additions in remaining proven developed natural gas reserves of 27 Bcf after production of 42 Bcf for the year and downward adjustments to the reserves in other areas.

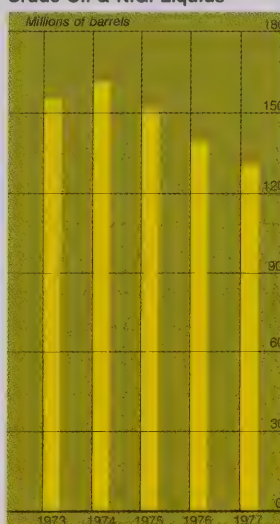
### GROSS PROVEN DEVELOPED RESERVES

|  | January 1,<br>1978 | January 1,<br>1977 |
|--|--------------------|--------------------|
| Crude Oil — barrels . . .                  | 117,023,300        | 126,682,400        |
| Natural Gas Liquids<br>— barrels . . . . . | 12,392,300         | 14,133,100         |
| Natural Gas<br>— thousand cubic feet       | 785,324,000        | 758,578,000        |
| Sulphur — long tons . . .                  | 1,442,100          | 1,302,700          |

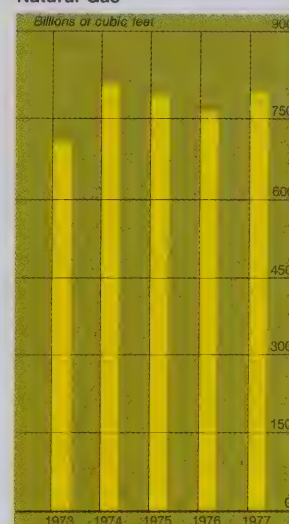
The above figures exclude probable additional conventional reserves, the bitumen reserves underlying Home's jointly held leases in the Athabasca Oil Sands and the heavy oil reserves in the Christina Lake area.

Included in gross proven developed reserves are 3,085,100 barrels of oil, 26,255,900 Mcf of natural gas and 284,900 barrels of natural gas liquids relating to the minority interests owned by others in such subsidiaries as Scurry-Rainbow Oil Limited, United Oils, Limited and Foothills Oil and Gas Company, Limited.

Proven Developed Reserves —  
Crude Oil & N.G. Liquids



Proven Developed Reserves —  
Natural Gas







## PIPELINES

### Federated Pipe Lines Ltd.

During 1977 Federated Pipe Lines Ltd., 50 per cent owned and operated by the Company, had a throughput averaging 247,612 barrels per day, down 5.7 per cent from the 262,559 barrels per day averaged in 1976. The decrease is due to reduced allowances in the oilfields served resulting from export restrictions and lower market requirements experienced in Eastern Canada. Federated's throughput is expected to decline five per cent per year as production limitations will become the dominant factor.

The peak delivery in 1977 was 313,671 barrels per day compared with the 329,300 barrels per day peak in 1976. Federated has a capacity of 450,000 barrels per day.

### Cremona Pipe Line Division

Cremona Pipe Line Division's throughput of crude, condensate and butane averaged 41,386 barrels per day in 1977, substantially unchanged from 1976.

## MARKETING AND STORAGE

A decrease in production at the producing gas plants was the primary cause of a 7.7 per cent reduction in sales of Canadian propane and butane in 1977. Despite the reduction, however, revenues from the sale of these products increased by 13.5 per cent. The underground salt cavern storage facility at Hardisty, Alberta again played an integral part in our marketing operation with storage revenues increasing by 7.7 per cent.

Sulphur sales were 51,000 long tons, representing an 8.5 per cent increase over last year. Prices continued

to decline in 1977 because of the over-supply position in Canada.

Despite continued United States Federal Energy Agency allocation of LPG sales and control of profit margins, Home Petroleum Corporation showed an 8.5 per cent increase in the total volume of products sold and a 12 per cent gain in the margin per gallon realized.

In 1977 Home Petroleum negotiated two separate joint ventures with another United States distributor; one to sell imported and domestic LPG's in six south-eastern states, and the other to process gas on a contract basis principally in the Rocky Mountain region in return for the marketing rights on all or part of the gas liquids recovered.

Cash flow generated by the Company's underground LPG storage operations at Conway, Kansas increased by 25 per cent in 1977, mainly because of the continued expansion of the facility, improved loss experience and higher storage fees. This facility, acquired in April 1974 at a cost of approximately \$9 million, reached pay-out in September 1977.

During 1977 the Company, as operator, actively investigated and promoted a crude oil storage project adjacent to the Strait of Canso, Nova Scotia. Documentation has been filed with the United States Department of Energy proposing that a portion of its strategic petroleum reserve requirements be located on this site. With both the Canadian and United States governments conducting a joint study into the use of crude oil storage sites in Canada, the Company is expecting a decision by the United States Strategic Petroleum Reserve Office in 1978.





## **FINANCIAL REVIEW AND MANAGEMENT'S DISCUSSION OF EARNINGS**

The Company's 1977 gross revenue of \$139.0 million (net after royalties) increased \$19.1 million from the previous 1976 high of \$119.9 million. This 16 per cent increase in gross revenue is primarily due to higher crude oil prices, which took effect on January 1 and July 1, 1977, and natural gas and related product price increases during the year partially offset by a marginal decrease in production. Crude oil revenue of \$66.6 million comprised 48 per cent of gross revenue with natural gas and related products contributing \$53.0 million or 38 per cent. The composition of gross revenue is provided in the Five Year Review, which is included on page 32 of this Annual Report.

Net earnings before extraordinary items amounted to \$38.3 million (\$4.68 per share) compared with \$30.4 million (\$3.73 per share) in 1976. The Company recorded a net extraordinary loss of \$1.3 million (\$0.16 per share) in 1977. The extraordinary loss included a provision of \$5.3 million representing an anticipated loss on the abandonment of Scurry-Rainbow's investment in the Santa Rita mine in Mexico. Poor operating results, coupled with a substantial decline in metal prices, led to a decision to abandon the mine. This loss was partially offset by a gain of \$1.9 million on the disposal of the Company's head office building in Calgary and a gain of \$2.0 million realized on the sale of 350,000 shares of TransCanada PipeLines Limited. As a result of these transactions, Home's net earnings after extraordinary items amounted to \$37.0 million (\$4.52 per share) compared with the 1976 amount of \$30.4 million (\$3.73 per share). Net flow of funds from operations totalled \$86.9 million compared with \$60.0 million in 1976, an increase of 45 per cent. The increase in net flow of

funds from operations is primarily due to a combination of increased product prices and a reduction in Canadian taxes payable resulting from the Company's expanded 1977 exploration and development program, the majority of which qualified for full Canadian tax treatment. At year end the Company's working capital totalled \$21.1 million compared with \$53.5 million in 1976.

The Company's 1977 capital expenditure program was the highest in its history. Total capital expenditures of \$98.8 million consisted mainly of exploration expenditures of \$75.3 million and development expenditures totalling \$17.4 million. During 1977 Home also invested \$10.2 million in Panarctic Oils Ltd. pursuant to its 1976 agreement whereby a total of \$30.5 million would be invested in the form of work obligations during the three year period 1977 to 1979 and a further \$2.0 million pursuant to Panarctic's eighth round financing. The investment in Panarctic was recognized as a joint venture exploration expenditure and is immediately deductible for income tax purposes. The resultant tax deferral reduced current income taxes payable. The depletion allowance earned through increased capital expenditures and the investment in Panarctic served to reduce the effective tax rate on pre-tax earnings to 45.8 per cent compared with 51.9 per cent in 1976. Details of the tax calculation are provided in Note 4 to the Financial Statements.

On January 31, 1978, Home made an offer for all of the outstanding shares of Bridger Petroleum Corporation Ltd., at \$12.00 per share. Subsequently, another Canadian company announced that it intended to



make an offer for Bridger at \$12.60 per share. Home increased its offering price to \$12.60, matching the competing bid and the amended offer was mailed on February 20, 1978. The total purchase price, including expenses, for all of the shares of Bridger will be approximately \$58.7 million.

In December 1977 the United States Financial Accounting Standards Board issued its long-awaited statement on "Financial Accounting and Reporting by Oil and Gas Producing Companies". The statement requires companies to follow a form of Successful Efforts Method of Accounting for costs incurred in the acquisition, exploration and development of oil and gas reserves. The statement is effective for fiscal years beginning after December 15, 1978 and would be applied retroactively by restating financial statements for prior years. The Canadian Institute of Chartered Accountants has made no official pronouncement with respect to financial reporting in the oil and gas industry and consequently both the Successful Efforts Method and Full Cost Method are generally accepted reporting practices in Canada. As mentioned in the Notes to the Financial Statements, Home follows the Full Cost Method of Accounting. At present the Company has not yet made a decision as to whether or not it will follow the Successful Efforts Method of Accounting for financial reporting purposes.

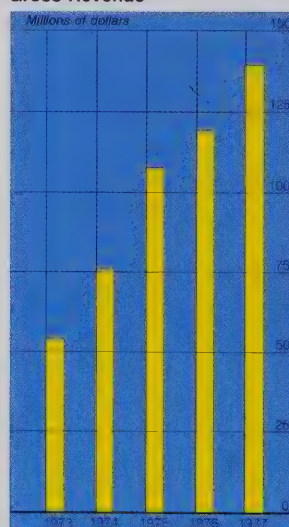
The following table indicates the percentage of gross revenue contributed by the two major sources during each of the five years ended December 31, 1977.

|  | 1977   | 1976   | 1975   | 1974   | 1973   |
|--|--------|--------|--------|--------|--------|
| Crude Oil . . . . .                        | 47.93% | 49.36% | 54.31% | 59.55% | 63.33% |
| Natural Gas and related products . . . . . | 38.14% | 35.31% | 31.88% | 24.35% | 20.22% |

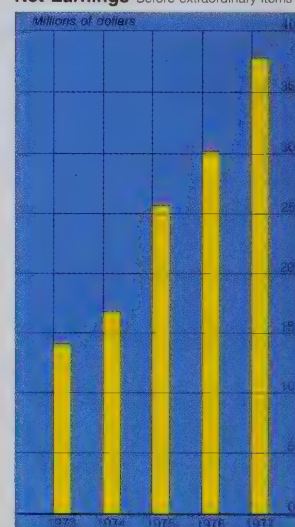
The Five Year Review provides a comparison of the Statement of Earnings for each of the five years ended December 31, 1977. Gross revenue reflects gains over the prior year periods with 1976 gross revenue of \$119.9 million, after royalties, increasing 12 per cent from 1975 primarily due to higher product prices and increased income from funds on deposit. Expenses have increased over the period with 1976 expenses increasing nine per cent over 1975 due mainly to the effects of inflation. Extraordinary items relate to gains or losses on sales of investments. The 1975 extraordinary loss of \$963,000 is a result of a net loss of \$3.3 million on the sale of investments and a net gain of \$2.3 million on the sale of land and other assets. Additional operating data is provided in the Five Year Review.

Semi-annual dividend payments of \$0.37 1/2 per share were paid on each of January 1 and July 1, 1977. The January 1, 1978 dividend on Class A and Class B shares was increased to \$0.45 per share.

**Gross Revenue**



**Net Earnings** Before extraordinary items







## **HUMAN RESOURCES AND COMMUNITY INVOLVEMENT**

At December 31, 1977, Home and its subsidiaries employed 903 people, an increase of 142 over the previous year. Staff additions in both the United States and Canada were the result of increased activity. The majority of the additions to Home's Canadian staff were in the Exploration Division and in certain Financial and Administrative areas of the Company.

Service Awards presented during 1977 included five awards for over 25 years' service, eight for 20 years' service and 12 for 10 years' service.

At December 31, 1977 assets in the Pension Trust Fund amounted to approximately \$12.2 million, with pension benefits being paid to 68 former employees or spouses of former employees. An actuarial evaluation of this pension fund at December 31, 1976 showed a minor experience deficiency which is being funded over a three year period.

With respect to overall employee compensation, the Company, as in past years, endeavoured to ensure that its total compensation package remained competitive while complying with the guidelines set down under the Anti-Inflation Act and Regulations. A major program, initiated in 1977 to review Home's employee compensation and benefit programs, will continue throughout 1978, with a view to offering employees a continuing competitive package while maintaining a responsible stance during the post-controls period.

As a leading Canadian company, Home places much emphasis upon its contribution to life within the community and is constantly evaluating its position to enable it to play a leading role in supporting community affairs. As one of the longest-established companies

in the petroleum industry, Home is proud of its equally long-standing reputation as a leader in the business and community life of those cities and towns in which its operations are located.

Home's employees, in addition to their donations to many worthwhile causes, volunteer a great deal of time and knowledge to various charitable groups, sports programs, health and welfare agencies and cultural and civic organizations. Your Company is particularly proud of these busy people who give so generously of their spare time as coaches, teachers, fund-raisers and musicians.

Home's Centennial Scholarship Program again provided assistance to students at the University of Calgary and this year the program has been expanded to include other institutions and courses. Scholarships, Bursaries and Grants are now also offered to students of the Universities of Alberta and Lethbridge, Camrose Lutheran College, the Southern Alberta Institute of Technology and Mount Royal College.



# EXPLORATION ACREAGE

DECEMBER 31, 1977

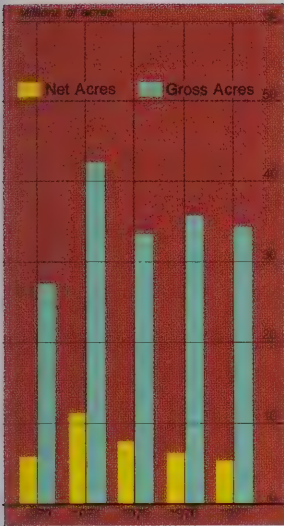
|                           | Petroleum & Natural Gas<br>Leases (1) |                  | Reservations, Licences<br>and Permits |                  | Totals            |                  |
|---------------------------|---------------------------------------|------------------|---------------------------------------|------------------|-------------------|------------------|
|                           | Gross                                 | Net              | Gross                                 | Net              | Gross             | Net              |
| <b>Canada</b>             |                                       |                  |                                       |                  |                   |                  |
| Alberta(1)                | 3,763,817                             | 1,504,671        | 673,576                               | 222,822          | 4,437,393         | 1,727,493        |
| Arctic Islands            | 87,876                                | 16,338           | 2,087,485                             | 422,354          | 2,175,361         | 438,692          |
| British Columbia(1)       | 594,287                               | 204,105          | 1,172,058                             | 317,224          | 1,766,345         | 521,329          |
| Manitoba(1)               | 37,672                                | 28,190           | —                                     | —                | 37,672            | 28,190           |
| New Brunswick             | —                                     | —                | 178,050                               | 48,984           | 178,050           | 48,984           |
| Newfoundland              | 80,592                                | 5,373            | 5,565,586                             | —                | 5,646,178         | 5,373            |
| Northwest Territories     | —                                     | —                | 1,570,484                             | 366,525          | 1,570,484         | 366,525          |
| Nova Scotia               | —                                     | —                | 80,640                                | 80,640           | 80,640            | 80,640           |
| Ontario                   | 1,334                                 | 800              | —                                     | —                | 1,334             | 800              |
| Quebec                    | —                                     | —                | 318,750                               | 117,938          | 318,750           | 117,938          |
| Saskatchewan(1)           | 1,571,910                             | 1,090,879        | —                                     | —                | 1,571,910         | 1,090,879        |
| Yukon Territory           | —                                     | —                | 959,252                               | 271,323          | 959,252           | 271,323          |
|                           | <u>6,137,488</u>                      | <u>2,850,356</u> | <u>12,605,881</u>                     | <u>1,847,810</u> | <u>18,743,369</u> | <u>4,698,166</u> |
| <b>Europe</b>             |                                       |                  |                                       |                  |                   |                  |
| Netherlands — Offshore    | —                                     | —                | 800,000                               | 20,000           | 800,000           | 20,000           |
| United Kingdom — Offshore | —                                     | —                | 238,941                               | 55,304           | 238,941           | 55,304           |
| United Kingdom — Onshore  | —                                     | —                | 57,920                                | 15,577           | 57,920            | 15,577           |
|                           | <u>—</u>                              | <u>—</u>         | <u>1,096,861</u>                      | <u>90,881</u>    | <u>1,096,861</u>  | <u>90,881</u>    |
| <b>United States</b>      |                                       |                  |                                       |                  |                   |                  |
| Alaska                    | 126,035                               | 120,732          | —                                     | —                | 126,035           | 120,732          |
| Arizona                   | 170,804                               | 170,804          | —                                     | —                | 170,804           | 170,804          |
| Gulf of Mexico (Offshore) | 43,800                                | 8,776            | —                                     | —                | 43,800            | 8,776            |
| Kansas                    | 3,240                                 | 2,945            | —                                     | —                | 3,240             | 2,945            |
| Michigan                  | 6,951                                 | 1,739            | —                                     | —                | 6,951             | 1,739            |
| Montana                   | 799,038                               | 417,377          | —                                     | —                | 799,038           | 417,377          |
| North Dakota              | 648,375                               | 226,817          | —                                     | —                | 648,375           | 226,817          |
| Oklahoma                  | 3,494                                 | 700              | —                                     | —                | 3,494             | 700              |
| Texas                     | 246,479                               | 71,659           | —                                     | —                | 246,479           | 71,659           |
| Utah                      | 157,686                               | 43,381           | —                                     | —                | 157,686           | 43,381           |
| Wyoming                   | 327,275                               | 66,242           | —                                     | —                | 327,275           | 66,242           |
| Southeastern States(2)    | 87,215                                | 68,128           | —                                     | —                | 87,215            | 68,128           |
|                           | <u>2,620,392</u>                      | <u>1,199,300</u> | <u>—</u>                              | <u>—</u>         | <u>2,620,392</u>  | <u>1,199,300</u> |
| <b>Others</b>             |                                       |                  |                                       |                  |                   |                  |
| Oman                      | —                                     | —                | 3,211,520                             | 521,872          | 3,211,520         | 521,872          |
| Thailand                  | —                                     | —                | 7,968,733                             | 340,562          | 7,968,733         | 340,562          |
| Tunisia                   | —                                     | —                | 722,345                               | 120,393          | 722,345           | 120,393          |
|                           | <u>—</u>                              | <u>—</u>         | <u>11,902,598</u>                     | <u>982,827</u>   | <u>11,902,598</u> | <u>982,827</u>   |
| <b>Totals</b>             | <u>8,757,880</u>                      | <u>4,049,656</u> | <u>25,605,340</u>                     | <u>2,921,518</u> | <u>34,363,220</u> | <u>6,971,174</u> |

(1) Includes Mineral Titles, Mineral Leases and Royalty Interest Acreage.

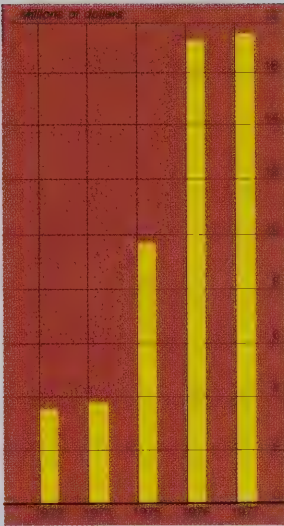
(2) Alabama, Arkansas, Florida, Kentucky, Louisiana, Mississippi.



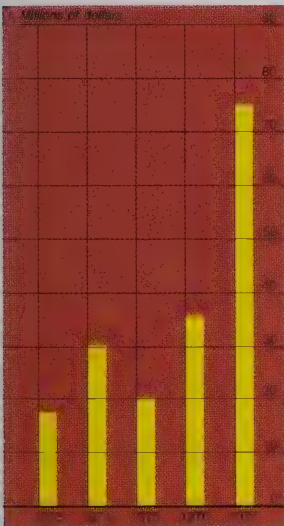
Exploration Acreage



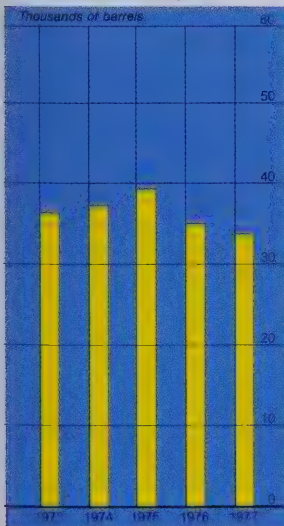
Development Expenditures



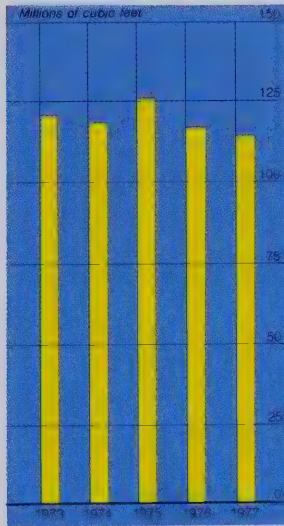
Exploration Expenditures



Average Daily Production — Crude Oil & N.G. Liquids



Average Daily Production — Natural Gas



# SOURCE OF PRODUCTION

(Before Deduction of Royalties)

## PRODUCING AREA

|                            | 1977      | 1976       |
|----------------------------|-----------|------------|
| CRUDE OIL — <i>Barrels</i> |           |            |
| Alberta                    |           |            |
| Swan Hills                 | 4,954,390 | 5,489,014  |
| Mitsue-Saulteaux           | 992,650   | 1,024,030  |
| Pembina Cardium            | 624,496   | 641,988    |
| Virginia Hills             | 603,200   | 684,006    |
| Harmattan-Elkton           | 546,109   | 538,071    |
| Turner Valley              | 412,286   | 403,547    |
| Redwater                   | 206,311   | 210,350    |
| Leduc-Woodbend             | 156,735   | 165,932    |
| Others                     | 654,752   | 975,912    |
|                            | 9,150,929 | 10,132,850 |

|                  |            |            |
|------------------|------------|------------|
| Saskatchewan     |            |            |
| Workman          | 229,505    | 273,150    |
| Others           | 692,005    | 388,518    |
|                  | 921,510    | 661,668    |
| British Columbia | 623,756    | 442,588    |
| Manitoba         | 45,811     | 51,542     |
| United States    | 37,340     | 35,638     |
| Total Crude Oil  | 10,779,346 | 11,324,286 |
| Daily Average    | 29,532     | 30,941     |

## NATURAL GAS LIQUIDS — *Barrels*

|   |            |            |
|---|------------|------------|
| Alberta                                 |            |            |
| Carstairs-Elkton                        | 583,205    | 556,365    |
| Harmattan                               | 330,612    | 277,993    |
| Nevis                                   | 166,762    | 207,852    |
| Calgary                                 | 87,436     | 85,557     |
| Others                                  | 321,415    | 342,860    |
| Total Natural Gas Liquids               | 1,489,430  | 1,470,627  |
| Daily Average                           | 4,081      | 4,018      |
| Total Crude Oil and Natural Gas Liquids | 12,268,776 | 12,794,913 |
| Daily Average                           | 33,613     | 34,959     |

## NATURAL GAS — *Thousand Cubic Feet*

|                   |            |            |
|-------------------|------------|------------|
| Alberta           |            |            |
| Carstairs-Elkton  | 11,304,052 | 12,668,195 |
| Nevis             | 5,008,720  | 5,230,639  |
| Swan Hills        | 2,909,520  | 3,344,372  |
| Calgary           | 2,555,770  | 2,308,337  |
| Marten Hills      | 2,551,380  | 2,573,546  |
| Harmattan-Elkton  | 2,091,416  | 1,440,001  |
| Crossfield        | 1,554,153  | 2,184,195  |
| Jumping Pound     | 986,630    | 874,222    |
| Nordegg-Brzeau    | 880,470    | 1,035,832  |
| Whitecourt        | 787,060    | 676,484    |
| Turner Valley     | 785,076    | 1,042,542  |
| Sarcee            | 718,820    | 541,327    |
| Coleman           | 580,360    | 1,523,740  |
| Retlaw            | 573,377    | 614,981    |
| Others            | 7,184,243  | 6,535,118  |
|                   | 40,471,047 | 42,593,531 |
| British Columbia  | 724,018    | 239,877    |
| United States     | 864,030    | 781,160    |
| Total Natural Gas | 42,059,095 | 43,614,568 |
| Daily Average     | 115,230    | 119,165    |



**Consolidated Statement of Changes in Financial Position**

|   | <b>For The Years Ended December 31,</b> |                      |
|---|---|----------------------|
|   | <b>1977</b>                             | <b>1976</b>          |
| <b>Funds Were Obtained From</b>                           |   |                      |
| Operations . . . . .                                      | \$ 86,855,000                           | \$ 60,003,000        |
| Sale of investments — net . . . . .                       | 4,996,000                               | 1,752,000            |
| Sale of assets — net . . . . .                            | 7,409,000                               | 3,477,000            |
| Repayment of advances . . . . .                           | 2,642,000                               | 6,477,000            |
| Issuance of capital stock (Note 5) . . . . .              | 583,000                                 | 413,000              |
| Long term borrowings . . . . .                            | 5,806,000                               | 26,279,000           |
| Dividends from effectively controlled companies . . . . . | 2,249,000                               | 2,106,000            |
|   | <u>110,540,000</u>                      | <u>100,507,000</u>   |
| <b>Funds Were Used For</b>                                |   |                      |
| Property, plant and equipment . . . . .                   | 98,810,000                              | 56,195,000           |
| Reduction in long term debt . . . . .                     | 13,569,000                              | 13,500,000           |
| Dividends . . . . .                                       | 6,764,000                               | 5,104,000            |
| Investments and advances . . . . .                        | 20,377,000                              | 4,374,000            |
| Other . . . . .   | 3,400,000                               | 1,585,000            |
|   | <u>142,920,000</u>                      | <u>80,758,000</u>    |
| <b>Increase (Decrease) in working capital . . . . .</b>   | <b>(32,380,000)</b>                     | <b>19,749,000</b>    |
| <b>Working capital at beginning of year . . . . .</b>     | <b>53,470,000</b>                       | <b>33,721,000</b>    |
| <b>Working capital at end of year . . . . .</b>           | <b>\$ 21,090,000</b>                    | <b>\$ 53,470,000</b> |
| <b>Changes in Components of Working Capital</b>           |   |                      |
| <b>Increase (Decrease) in Current Assets</b>              |   |                      |
| Cash and short term deposits . . . . .                    | \$ (41,273,000)                         | \$ 20,190,000        |
| Accounts receivable . . . . .                             | 16,294,000                              | (328,000)            |
| Marketable securities . . . . .                           | —                                       | (1,934,000)          |
| Inventories . . . . .                                     | 5,869,000                               | (1,729,000)          |
|   | <u>(19,110,000)</u>                     | <u>16,199,000</u>    |
| <b>Decrease (Increase) in Current Liabilities</b>         |   |                      |
| Bank indebtedness . . . . .                               | (1,707,000)                             | (2,885,000)          |
| Accounts payable and accrued charges . . . . .            | (9,136,000)                             | (3,272,000)          |
| Dividends . . . . .                                       | (627,000)                               | (1,023,000)          |
| Income Taxes . . . . .                                    | (516,000)                               | 12,611,000           |
| Current maturities on long term debt . . . . .            | (1,284,000)                             | (1,881,000)          |
|   | <u>(13,270,000)</u>                     | <u>3,550,000</u>     |
| <b>Increase (Decrease) in Working Capital . . . . .</b>   | <b>\$(32,380,000)</b>                   | <b>\$ 19,749,000</b> |



**Consolidated Statement of Earnings**

|  | <b>For The Years Ended December 31,</b> |                      |
|--|---|----------------------|
|  | <b>1977</b>                             | <b>1976</b>          |
| <b>Revenue</b>   |   |                      |
| Operating . . . . .  | \$134,673,000                           | \$113,045,000        |
| Investment income . . . . .  | 4,347,000                               | 6,816,000            |
|  | <u>139,020,000</u>                      | <u>119,861,000</u>   |
| <b>Expenses</b>  |   |                      |
| Operating . . . . .  | 19,061,000                              | 16,721,000           |
| General and administrative . . . . .   | 10,903,000                              | 8,878,000            |
| Depletion . . . . .  | 24,611,000                              | 21,011,000           |
| Depreciation . . . . .   | 4,161,000                               | 3,393,000            |
| Interest and expense on long term debt . . . . .                             | 8,154,000                               | 7,413,000            |
| Other interest . . . . .   | 225,000                                 | 46,000               |
| Minority interest . . . . .  | 340,000                                 | 617,000              |
|  | <u>67,455,000</u>                       | <u>58,079,000</u>    |
|  | <u>71,565,000</u>                       | <u>61,782,000</u>    |
| <b>Provision for Income Taxes</b> (Note 4)                                   |   |                      |
| Current . . . . .  | 13,803,000                              | 26,014,000           |
| Deferred . . . . .   | 18,570,000                              | 6,864,000            |
|  | <u>32,373,000</u>                       | <u>32,878,000</u>    |
|  | <u>39,192,000</u>                       | <u>28,904,000</u>    |
| Equity income (loss) . . . . .   | (850,000)                               | 1,532,000            |
| <b>Net Earnings</b> before extraordinary items . . . . .                     | 38,342,000                              | 30,436,000           |
| Extraordinary items (Note 6) . . . . .                                       | (1,345,000)                             | —                    |
| <b>Net Earnings</b> . . . . .  | <u>\$ 36,997,000</u>                    | <u>\$ 30,436,000</u> |
| <b>Earnings per Share</b> (based on average number<br>of shares outstanding) |   |                      |
| Net earnings before extraordinary items . . . . .                            | \$4.68                                  | \$3.73               |
| Extraordinary items . . . . .  | (.16)                                   | —                    |
| Net earnings . . . . .   | <u>\$4.52</u>                           | <u>\$3.73</u>        |

**Consolidated Statement of Retained Earnings**

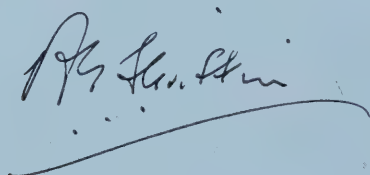
|  | <b>For The Years Ended December 31,</b> |                      |
|--|---|----------------------|
|  | <b>1977</b>                             | <b>1976</b>          |
| <b>Balance, at Beginning of Year</b> . . . . . | \$110,447,000                           | \$ 85,115,000        |
| <b>Net Earnings</b> . . . . .                  | 36,997,000                              | 30,436,000           |
|  | <u>147,444,000</u>                      | <u>115,551,000</u>   |
| <b>Dividends Declared</b>                      |   |                      |
| Class A shares . . . . .                       | 4,642,000                               | 3,496,000            |
| Class B shares . . . . .                       | 2,122,000                               | 1,608,000            |
|  | <u>6,764,000</u>                        | <u>5,104,000</u>     |
| <b>Balance, at End of Year</b> . . . . .       | <u>\$140,680,000</u>                    | <u>\$110,447,000</u> |



**Consolidated Balance Sheet as at December 31, 1977 and 1976****Assets**

|  | <u>1977</u>          | <u>1976</u>          |
|--|----------------------|----------------------|
| CURRENT ASSETS   |                      |                      |
| Cash and short term deposits . . . . .                                 | \$ 18,399,000        | \$ 59,672,000        |
| Accounts receivable . . . . .  | 44,094,000           | 27,800,000           |
| Inventories, at lower of cost and realizable value . . . . .           | <u>12,343,000</u>    | <u>6,474,000</u>     |
|  | 74,836,000           | 93,946,000           |
| INVESTMENTS AND ADVANCES (Note 1)                                      |                      |                      |
| Quoted securities . . . . .  | 5,885,000            | 8,843,000            |
| Effectively controlled companies and<br>partnership interest . . . . . | 11,926,000           | 12,876,000           |
| Panarctic Oils Ltd. . . . .  | 12,146,000           | —                    |
| Advances repayable from production, at cost . . . . .                  | <u>—</u>             | <u>1,080,000</u>     |
|  | 29,957,000           | 22,799,000           |
| PROPERTY, PLANT AND EQUIPMENT,<br>at cost (Note 2) . . . . .           | 577,582,000          | 487,886,000          |
| Accumulated depletion and depreciation . . . . .                       | <u>194,372,000</u>   | <u>169,831,000</u>   |
|  | 383,210,000          | 318,055,000          |
| OTHER ASSETS (Note 5) . . . . .  | 6,544,000            | 5,704,000            |
|  | <u>\$494,547,000</u> | <u>\$440,504,000</u> |

Approved on behalf of the Board:


 Director


 Director



## Liabilities

|  | 1977              | 1976              |
|--|-------------------|-------------------|
| CURRENT LIABILITIES                                      |                   |                   |
| Bank indebtedness  | \$ 4,592,000      | \$ 2,885,000      |
| Accounts payable and accrued charges                     | 31,038,000        | 21,902,000        |
| Dividends  | 3,690,000         | 3,063,000         |
| Income taxes   | 553,000           | 37,000            |
| Current maturities on long term debt                     | 13,873,000        | 12,589,000        |
|  | <u>53,746,000</u> | <u>40,476,000</u> |
| LONG TERM DEBT (Notes 1 and 3)                           | <u>77,200,000</u> | <u>85,111,000</u> |
| ACCUMULATED TAX REDUCTIONS APPLICABLE<br>TO FUTURE YEARS | <u>75,721,000</u> | <u>57,192,000</u> |
| MINORITY INTEREST  | <u>12,307,000</u> | <u>12,968,000</u> |

## Shareholders' Equity

### CAPITAL STOCK (Note 5)

#### Authorized

1,000,000 preferred shares, par value \$50 each

10,000,000 class A shares of no par value

5,000,000 class B shares of no par value

#### Issued

5,629,076 class A shares (1976 — 5,603,441) 114,274,000 113,691,000

2,572,905 class B shares 20,619,000 20,619,000

134,893,000 134,310,000

RETAINED EARNINGS (Notes 5 and 10) 140,680,000 110,447,000

275,573,000 244,757,000

\$494,547,000 \$440,504,000

## Auditors' Report

### TO THE SHAREHOLDERS OF HOME OIL COMPANY LIMITED

We have examined the consolidated balance sheet of Home Oil Company Limited as at December 31, 1977 and 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and 1976 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Calgary, Canada  
February 22, 1978

THORNE RIDDELL & CO.  
Chartered Accountants



## Notes to 1977 and 1976 Consolidated Financial Statements

(tabular amounts shown in thousands of Canadian dollars)

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### PRINCIPLES OF CONSOLIDATION

- (a) The consolidated financial statements include the accounts of all companies in which the Company has ownership of more than 50% of the voting capital stock.
- (b) The Company follows the equity method of accounting for its investment in effectively controlled companies and a 20% partnership interest. Under this method the Company's investment in such entities is carried on the balance sheet at cost plus its share of undistributed earnings or losses.
- (c) The excess of the cost of shares in subsidiaries and companies accounted for by the equity method over the underlying book value at dates of acquisition has been allocated to property, plant and equipment and is subject to the accounting policies outlined below.
- (d) Current assets and current liabilities of foreign subsidiaries are converted to Canadian dollars using the exchange rate at the date of the balance sheet. Other assets and liabilities are converted at the rate in effect at the time the original transactions took place. Revenue and expense items (excluding depletion and depreciation, which are converted at the rate of exchange applicable to the related asset) are converted using average rates of exchange throughout the year.

#### OIL AND GAS OPERATIONS

The Company follows the full cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas and related reserves are capitalized and charged against earnings as set out below. Such costs include land acquisition costs, geological and geophysical expense, carrying charges of non-producing property, costs of drilling both productive and non-productive wells and overhead expense related to exploration activities. The costs are accumulated in cost centres as follows :

- (a) North America — Canada and the United States.
- (b) Northwestern Europe — the United Kingdom and the Northwestern European Continental Shelf which presently encompasses all sectors of the North Sea, the Celtic Sea and the English Channel.
- (c) Other Areas — a separate cost centre for the Athabasca Tar Sands and for each foreign area in which the Company is engaged in exploration activities.

Costs accumulated in the North America cost centre are depleted using the unit of production method based upon estimated proven developed reserves, as determined by Company engineers. Natural gas and sulphur reserves and production are converted to equivalent barrels of crude oil based on the relative net sales value of each product.

Expenditures in the areas outlined in (b) and (c) above are amortized on a straight-line basis over varying periods. Under this policy, should exploration in a particular area prove successful, the unamortized balance in that cost centre will be depleted on the unit of production basis. Should the area prove to be unproductive, the unamortized balance in that cost centre will be written off to earnings (included in depletion).

#### MINING OPERATIONS

Mining costs are charged to earnings in the year of expenditure (included in depletion) until such time as the presence of economically recoverable reserves is established. Subsequent expenditures are capitalized and charged to earnings as set out below. Economically recoverable reserves are defined by Company engineers as reserves which are capable or have a reasonable prospect of sustaining commercial production. Proceeds on partial disposition of non-producing properties are deducted from the related costs without recognition of gain or loss.

Costs are accumulated by producing area and are depleted using the unit of production method based upon estimated proven reserves, as determined by Company engineers.

## DEPRECIATION

Depreciation of buildings, plant, pipeline property and equipment has been provided in the accounts of the Company on a straight-line basis at rates which are estimated to amortize the costs of the assets less salvage value over their useful lives.

## INCOME TAXES

The Company follows the tax allocation method of accounting under which the income tax provision is based on the earnings reported in the accounts. Under this method, the Company makes full provision for income taxes deferred as the result of claiming capital cost allowances and exploration and development costs, including those expenditures which earn an investment in Panarctic Oils Ltd., in excess of the amounts provided for depreciation and depletion in the accounts.

### Note 1 Investments and Advances

Investments in and advances to effectively controlled companies and partnership interests accounted for on the equity basis consist of:

|   | Percentage<br>Interest | 1977            | 1976            |
|---|------------------------|-----------------|-----------------|
| Federated Pipe Lines Ltd. . . . .         | 50.0                   | \$ 7,212        | \$ 7,261        |
| Minerals Ltd. . . . .                     | 50.0                   | 1,105           | 1,161           |
| Minerales Santa Rita S.A. de C.V. . . . . | 49.0                   | 261             | 1,040           |
| Partnership Interest . . . . .            | 20.0                   | 3,348           | 3,414           |
|   |                        | <u>\$11,926</u> | <u>\$12,876</u> |

The investment in and advances to Minerales Santa Rita S.A. de C.V. (including anticipated payments under the guarantee — see Note 3) have been written down to their estimated residual value of \$261,000.

Investment in quoted securities consists of:

|                               | Number<br>of<br>Shares | Cost     | Quoted<br>Market<br>Value |
|-------------------------------|------------------------|----------|---------------------------|
| TransCanada PipeLines Limited |                        |          |                           |
| — common shares               |                        |          |                           |
| — December 31, 1977 . . . . . | 696,500                | \$ 5,885 | \$10,535                  |
| — December 31, 1976 . . . . . | 1,046,500              | \$ 8,843 | \$13,735                  |

Certain of the long term debt is secured by 666,700 (1976 — 951,000) of the above shares.

### Note 2 Property, Plant and Equipment

|  | 1977             |   |                  | 1976             |   |                  |
|--|------------------|---|------------------|------------------|---|------------------|
|  | Cost             | Accumulated<br>Depletion<br>and<br>Depreciation | Net              | Cost             | Accumulated<br>Depletion<br>and<br>Depreciation | Net              |
| Petroleum and natural gas leases<br>and rights, including exploration<br>and development |                  |   |                  |                  |   |                  |
| — North America . . . . .  | \$423,383        | \$142,992                                       | \$280,391        | \$346,004        | \$124,005                                       | \$221,999        |
| — Northwestern Europe . . . . .  | 21,340           | 9,605   | 11,735           | 20,440           | 7,687   | 12,753           |
| — Other areas . . . . .  | 9,438            | 7,613   | 1,825            | 7,720            | 4,180   | 3,540            |
| Mining Properties  |                  |   |                  |                  |   |                  |
| — Producing . . . . .  | 6,415            | 360   | 6,055            | —                | —   | —                |
| — Non-Producing . . . . .  | 27,506           | 3,420   | 24,086           | 32,815           | 5,487   | 27,328           |
| Production Equipment . . . . .   | 56,942           | 19,495  | 37,447           | 50,107           | 17,219  | 32,888           |
| Land, buildings, pipeline property<br>and other equipment . . . . .                      | 32,558           | 10,887  | 21,671           | 30,800           | 11,253  | 19,547           |
|  | <u>\$577,582</u> | <u>\$194,372</u>                                | <u>\$383,210</u> | <u>\$487,886</u> | <u>\$169,831</u>                                | <u>\$318,055</u> |



### Note 3 Long Term Debt

|   | Maturity | 1977     | 1976     |
|---|----------|----------|----------|
| 11.50% Secured bonds . . . . .  | 1986     | \$12,750 | \$13,875 |
| 8.20% Secured bonds . . . . .   | 1980     | 2,880    | 5,834    |
| (1977 — \$2,632,000 U.S.)   |          |          |          |
| (1976 — \$5,602,000 U.S.)   |          |          |          |
| 6.25% Collateral Trust bonds . . . . .                                  | 1983     | 6,000    | 7,000    |
| 8.10% Secured bonds . . . . .   | 1980     | 1,519    | 2,171    |
| (1977 — \$1,402,000 U.S.)   |          |          |          |
| (1976 — \$2,059,000 U.S.)   |          |          |          |
| 9.50% Debentures . . . . .  | 1986     | 23,354   | 24,240   |
| (1977 — \$24,000,000 U.S.)  |          |          |          |
| (1976 — \$25,000,000 U.S.)  |          |          |          |
| 7.25% Convertible subordinated<br>debentures of a subsidiary* . . . . . | 1988     | 14,201   | 15,115   |
| Bank production loans . . . . .   | 1981     | 15,875   | 20,375   |
| Non-interest bearing advances . . . . .                                 | 1983     | 7,696    | 7,718    |
| (1977 — \$7,695,000 U.S.)   |          |          |          |
| (1976 — \$7,719,000 U.S.)   |          |          |          |
| Liability under guarantee . . . . .                                     |          | 5,144    | —        |
| (1977 — \$4,700,000 U.S.) . . . . .                                     |          | 1,654    | 1,372    |
| Other . . . . .   |          | 91,073   | 97,700   |
|   |          | 13,873   | 12,589   |
| Less: Current minimum maturities . . . . .                              |          | \$77,200 | \$85,111 |

\*Convertible into shares of Scurry-Rainbow Oil Limited prior to May 1, 1978 at \$33 1/3 per share.

A subsidiary has guaranteed the bank indebtedness of Minerales Santa Rita S.A. de C.V. which at December 31, 1977 amounted to \$5,144,000 (Cdn.). The subsidiary anticipates that it will be required to repay this loan under the terms of its guarantee (see Note 1). Accordingly, the full amount of the loan has been recorded as a liability and has been classified as long term since arrangements have been made to finance the repayment by means of a long term bank production loan.

All U.S. issues are recorded on the balance sheets in Canadian dollars based on the exchange rate in effect at the date of receipt of the proceeds. The estimated amount of long term debt maturities and sinking fund requirements for the five years subsequent to 1977 are as follows: 1978 — \$13.9 million, 1979 — \$12.1 million, 1980 — \$10.1 million, 1981 — \$8.2 million, 1982 — \$7.6 million.

### Note 4 Income Taxes

Income tax expense differs from the amounts which would be obtained by applying the Canadian Federal income tax rate to the respective years' pretax earnings, before extraordinary items. These differences result from the following items:

|   | 1977     |                                   | 1976     |                                   |
|---|----------|-----------------------------------|----------|-----------------------------------|
|   | Amount   | Percentage<br>of Pretax<br>Income | Amount   | Percentage<br>of Pretax<br>Income |
| Computed "expected" tax expense . . . . .                                   | \$32,529 | 46.0%                             | \$29,124 | 46.0%                             |
| Royalties and other payments<br>to provincial governments . . . . .         | 24,782   | 35.0                              | 21,173   | 33.5                              |
| Non-deductible costs, primarily foreign exploration . . . . .               | 3,017    | 4.3                               | 3,321    | 5.2                               |
| Equity earnings of effectively<br>controlled companies . . . . .            | 345      | 0.5                               | (520)    | (.8)                              |
| Depletion allowances on Canadian oil<br>and gas production income . . . . . | (8,094)  | (11.4)                            | (3,068)  | (4.8)                             |
| Federal resource allowance . . . . .  | (17,305) | (24.5)                            | (14,279) | (22.6)                            |
| Provincial income taxes less<br>federal tax abatements . . . . .            | 788      | 1.1                               | 727      | 1.1                               |
| Refund of taxes under provincial<br>incentive plans . . . . .               | (3,689)  | (5.2)                             | (3,600)  | (5.7)                             |
| Actual tax expense . . . . .  | \$32,373 | 45.8%                             | \$32,878 | 51.9%                             |
| — current and deferred . . . . .  |          |                                   |          |                                   |

## Note 5 Capital Stock

### (a) Dividends

There are restrictions on the payment of dividends on the Class B shares and of dividends in excess of 25¢ per annum on the Class A shares under the provisions of the deeds of trust and mortgage securing certain of the outstanding long term debt. Under the most restrictive provision, the amount permitted thereunder for payment of dividends was in excess of the retained earnings at December 31, 1977. Reference is made to Note 10 for further restrictions on the payment of dividends under the Federal Anti-Inflation Legislation.

### (b) Shares Reserved for Exercise of Warrants

There were 109,965 Class A shares reserved at December 31, 1977 and December 31, 1976 for issuance upon the exercise, on or before April 30, 1980, of warrants to purchase 76,975 shares at \$14.55 U.S. per share and 32,990 shares at \$17.66 U.S. per share.

### (c) Options to Purchase Capital Stock

As at December 31, 1977 there were 95,256 Class A shares (1976 — 94,760 Class A shares) reserved for exercise to 1987 of employee stock options at prices ranging from \$20 to \$38.50 per share. The exercise prices were equal to or greater than the market price of the shares at the date of granting. In the case of options granted to senior officers, the Company has agreed to accept notes in payment of the optioned shares. A summary of transactions relating to optioned shares is as follows:

| <b>Class A Shares</b>         | <b>Officers</b> | <b>Other Employees</b> | <b>Total</b>  | <b>Consideration</b> |
|-------------------------------|-----------------|------------------------|---------------|----------------------|
| Outstanding January 1, 1976   | 36,400          | 50,034                 | 86,434        |                      |
| Reclassification              | 3,334           | (3,334)                | —             |                      |
| Surrendered and Cancelled     | (7,000)         | (3,568)                | (10,568)      |                      |
| Granted at \$27.375           | 6,500           | 3,500                  | 10,000        |                      |
| Granted at \$24.50            | 27,800          | —                      | 27,800        |                      |
| Exercised at \$20             | (6,200)         | (4,906)                | (11,106)      | \$222                |
| Exercised at \$24.50          | (7,800)         | —                      | (7,800)       | \$191                |
| Outstanding December 31, 1976 | 53,034          | 41,726                 | 94,760        |                      |
| Surrendered and Cancelled     | —               | (1,669)                | (1,669)       |                      |
| Granted at \$28.375           | —               | 1,500                  | 1,500         |                      |
| Granted at \$28.75            | —               | 2,500                  | 2,500         |                      |
| Granted at \$38.50            | 13,800          | 10,000                 | 23,800        |                      |
| Exercised at \$20             | (9,000)         | (6,970)                | (15,970)      | \$320                |
| Exercised at \$24.50          | (5,133)         | —                      | (5,133)       | \$126                |
| Exercised at \$27.375         | (3,000)         | (332)                  | (3,332)       | \$ 91                |
| Exercised at \$38.50          | (1,200)         | —                      | (1,200)       | \$ 46                |
| Outstanding December 31, 1977 | <u>48,501</u>   | <u>46,755</u>          | <u>95,256</u> |                      |

All options were granted under the Officers and Key Employees Share Option Plan which terminates in 1979 or the Incentive Share Option Plan which terminates in 1986. At December 31, 1977 159,405 Class A shares (1976 — 185,536 Class A shares) were reserved for options that may be granted under the plans.

(d) During 1977, 25,635 (1976 — 18,906) Class A shares were issued for cash and notes of \$583,000 (1976 — \$413,000) on exercise of employee share options.

Other Assets at December 31, 1977 include notes totalling \$941,000 (1976 — \$695,000) received in payment of 41,933 (1976 — 33,000) Class A shares of the Company subscribed for by officers pursuant to share option agreements.

## Note 6 Extraordinary Items

|  |                   |
|--|-------------------|
| Gain on sale of investments (net of applicable income taxes of \$236,000)                | \$ 2,039          |
| Gain on sale of office building (net of applicable income taxes of \$22,000)             | 1,925             |
| Write-down of investment in Minerales Santa Rita S.A. de C.V. (net of minority interest) | (5,309)           |
|  | <u>\$ (1,345)</u> |



**Note 7 Commitment and Contingent Liabilities**

The Company has entered into an agreement to subscribe for 2,441,794 common shares (approximately 5.5%) of Panarctic Oils Ltd. As consideration for the Panarctic shares, the Company agreed to incur drilling and exploration expenses on Panarctic lands. At December 31, 1977, \$20.3 million remains to be expended during 1978 and 1979 under the terms of the agreement.

The Company has guaranteed the indebtedness and certain other obligations of associated entities to the extent of approximately \$6.0 million (1976 — \$13.1 million).

The Company has certain lease obligations, primarily covering the rental of office space and railroad tank cars. Some of the leases by their terms can be cancelled but only upon payment of substantial penalties and some of the leases contain options to purchase the related asset. The minimum rental commitments under all leases (excluding leases relating to oil and gas production rights and mineral rights) are as follows: 1978 — \$3.9 million, 1979 — \$4.1 million, 1980 — \$4.0 million, 1981 — \$4.0 million and 1982 — \$3.3 million.

**Note 8 Legal Proceedings**

On December 5, 1977, Chevron Standard Limited served the Company with a Statement of Claim alleging that the Company and one of its employees had made improper use of certain confidential information relating to the West Pembina Basin in the Province of Alberta. The Statement of Claim asks the court, inter alia, for certain injunctive relief, general and special damages and a declaration that the Company is trustee for Chevron Standard Limited for and in respect of all oil and gas rights, properties and interests acquired by the Company of Upper Devonian Age in the West Pembina Basin and requiring the Company to hold the same in trust for Chevron Standard Limited.

The Company has filed a Statement of Defence to that claim denying the improper use of any confidential information. In the opinion of the Company's counsel, the claim is without merit. No provision for the claim has been made in the accounts.

**Note 9 Remuneration of Directors and Officers**

The Company had 20 directors and 13 senior officers in 1977 (20 and 18 respectively in 1976). Three of the senior officers are directors of the Company. Remuneration paid to directors and senior officers in their respective capacities was \$88,000 and \$802,000 (1976 — \$106,000 and \$950,000).

**Note 10 Anti-Inflation Legislation**

Certain of the provisions contained in the Federal Anti-Inflation Act apply to the Company. Included in these provisions are restrictions that place restraints on the amounts of employee compensation and dividends which may be paid.

The regulations restrict the amount of dividends the Company can declare or pay during the period from October 14, 1977 to October 13, 1978. Under the restrictions the Company may not, during this period, declare or pay any dividends on all classes of its shares in excess of \$7.6 million.

With the exception of the above, substantially all of the Company's operations are exempt from the provisions of the Act. Therefore there was no appreciable effect on the earnings of the Company in 1977 and 1976.

**Note 11 Subsequent Event**

Subsequent to December 31, 1977 the Company made an offer to purchase all of the outstanding shares of Bridger Petroleum Corporation Ltd., a company engaged in the production of and exploration for oil and gas, at a price of \$12.60 (Canadian) per share. This offer will remain open until June 21, 1978 and if accepted by all of the shareholders of Bridger will result in an expenditure of \$58.6 million (excluding expenses).

## HOME'S SHARES

The Company has two classes of shares outstanding, Class A and Class B, which are listed on the Alberta, Montreal, Toronto and Vancouver stock exchanges in Canada and on the American Stock Exchange in the United States.

Class A shares are entitled to a fixed cumulative dividend of \$0.25 per year in priority to dividends on the Class B shares. After payment of this dividend on the Class A shares a dividend of \$0.25 per share may be paid on the Class B shares. Any further dividend in any year is payable equally on the Class A and Class B shares. Only the Class B shares carry voting rights under normal circumstances.

The Consumers' Gas Company of Toronto has effective control of the Company through its ownership, at

December 31, 1977, of approximately 96 per cent of the outstanding shares of Cygnus Corporation Limited. The 1,000,000 Class B shares of Home held by Cygnus, together with the 276,788 Class B shares of Home held by Consumers', brings Consumers' effective control of Home's Class B voting shares to 49.7 per cent at December 31, 1977. In addition, Consumers' owned 1,339,615 Class A shares of Home at December 31, 1977, while on this same date Cygnus owned 125,000 Class A shares of Home and all of the outstanding warrants to purchase 109,965 Class A shares of Home. These shareholdings give Consumers' a 32.9 per cent equity position in the Company at December 31, 1977.

|  | CLASS A           |                 | CLASS B           |                 |
|--|-------------------|-----------------|-------------------|-----------------|
|  | 1977              | 1976            | 1977              | 1976            |
| Shares Authorized . . . . .            | 10,000,000        | 10,000,000      | 5,000,000         | 5,000,000       |
| Shares Issued at December 31 . . . . . | 5,629,076         | 5,603,441       | 2,572,905         | 2,572,905       |
| Shares Reserved for:                   |                   |                 |                   |                 |
| Warrants . . . . .                     | 109,965           | 109,965         | —                 | —               |
| Options . . . . .                      | 254,661           | 280,296         | —                 | —               |
| Number of Shareholders . . . . .       | 8,033             | 9,108           | 2,559             | 2,671           |
| Distribution of Shares at December 31  |                   |                 |                   |                 |
| Canada . . . . .                       | 90.2%             | 92.4%           | 96.5%             | 96.3%           |
| United States . . . . .                | 7.4%              | 6.5%            | 2.7%              | 3.1%            |
| United Kingdom . . . . .               | .6%               | .6%             | .1%               | .1%             |
| Other . . . . .                        | 1.8%              | .5%             | .7%               | .5%             |
|  | 100.0%            | 100.0%          | 100.0%            | 100.0%          |
| Volume of Shares Traded . . . . .      | 2,318,563         | 1,298,784       | 624,034           | 162,980         |
| Price Ranges (High-Low)                |                   |                 |                   |                 |
| Toronto Stock Exchange                 |                   |                 |                   |                 |
| First Quarter . . . . .                | 30 1/2 - 26 3/8   | 34 7/8 - 27     | 26 3/4 - 24 1/4   | 30 1/2 - 23 3/4 |
| Second Quarter . . . . .               | 31 3/4 - 27 3/4   | 33 3/4 - 29 1/4 | 27 1/4 - 24       | 29 1/2 - 26 3/4 |
| Third Quarter . . . . .                | 34 1/4 - 29 1/2   | 30 3/4 - 26 1/2 | 29 1/2 - 26 1/8   | 25 3/4 - 21 1/2 |
| Fourth Quarter . . . . .               | 47 1/2 - 34 1/4   | 28 1/4 - 23     | 45 - 29 3/4       | 24 1/2 - 19 1/4 |
| American Stock Exchange                |                   |                 |                   |                 |
| First Quarter . . . . .                | 30 - 26 1/4       | 34 3/4 - 26 1/8 | 26 7/8 - 23 3/4   | 30 1/2 - 22 1/2 |
| Second Quarter . . . . .               | 30 1/4 - 27 1/8   | 34 3/8 - 30     | 26 - 22 7/8       | 28 3/4 - 26 3/4 |
| Third Quarter . . . . .                | 32 1/4 - 28 1/2   | 31 1/8 - 26 3/4 | 27 7/8 - 24       | 28 1/2 - 22 1/2 |
| Fourth Quarter . . . . .               | 43 1/2 - 31 3/4   | 27 1/2 - 22 1/4 | 40 1/2 - 27 1/2   | 24 - 20 1/2     |
| Dividends Declared Per Share . . . . . | \$0.82 1/2        | \$0.62 1/2      | \$0.82 1/2        | \$0.62 1/2      |
| Federal Government                     |                   |                 |                   |                 |
| Valuation Day Values . . . . .         | \$33.38 per share |                 | \$33.00 per share |                 |



## FIVE YEAR REVIEW / 1973 - 1977

|  |  | 1977                       | 1976             | 1975             | 1974             | 1973             |
|--|--|----------------------------|------------------|------------------|------------------|------------------|
| Consolidated<br>Statement of<br>Earnings | <b>Gross Revenue</b>   |                            |                  |                  |                  |                  |
|  | Crude Oil . . . . .  | \$ 66,635                  | \$ 59,175        | \$ 58,289        | \$ 45,742        | \$ 33,902        |
|  | Gas and Products . . . . .                                     | 53,026                     | 42,277           | 34,219           | 18,700           | 10,825           |
|  | Pipeline . . . . .   | 2,805                      | 2,689            | 2,615            | 2,570            | 2,671            |
|  | L.P.G. Marketing and Storage . . . . .                         | 11,115                     | 8,847            | 8,526            | 7,110            | 4,105            |
|  | Mining . . . . .   | 1,092                      | 57               | —                | —                | —                |
|  | Investment Revenue . . . . .                                   | 4,347                      | 6,816            | 3,673            | 2,681            | 2,031            |
|  |  | <u>139,020</u>             | <u>119,861</u>   | <u>107,322</u>   | <u>76,803</u>    | <u>53,534</u>    |
|  | <b>Expenses</b>  |                            |                  |                  |                  |                  |
|  | Operating and General . . . . .                                | 30,304                     | 26,216           | 21,819           | 15,854           | 12,465           |
|  | Depletion and Depreciation . . . . .                           | 28,772                     | 24,404           | 24,342           | 20,517           | 15,043           |
|  | Interest . . . . .   | 8,379                      | 7,459            | 7,275            | 6,626            | 3,811            |
|  |  | <u>67,455</u>              | <u>58,079</u>    | <u>53,436</u>    | <u>42,997</u>    | <u>31,319</u>    |
|  | <b>Net earnings</b> before undernoted . . . . .                | 71,565                     | 61,782           | 53,886           | 33,806           | 22,215           |
|  | Income Tax — Current . . . . .                                 | 13,803                     | 26,014           | 27,447           | 11,761           | 6,786            |
|  | — Deferred . . . . .   | 18,570                     | 6,864            | 2,151            | 7,344            | 3,397            |
|  | Equity Income (Loss) . . . . .                                 | (850)                      | 1,532            | 2,257            | 2,717            | 2,480            |
|  |  | <u>Net earnings</u> before |                  |                  |                  |                  |
|  | extraordinary items . . . . .                                  | 38,342                     | 30,436           | 26,545           | 17,418           | 14,512           |
|  | Extraordinary Items . . . . .                                  | (1,345)                    | —                | (963)            | (3,902)          | (295)            |
|  |  | <u>Net Earnings</u>        | <u>\$ 30,436</u> | <u>\$ 25,582</u> | <u>\$ 13,516</u> | <u>\$ 14,217</u> |
|  | <b>Earnings per share —</b>                                    |                            |                  |                  |                  |                  |
|  | Before Extraordinary Items . . . . .                           | \$ 4.68                    | \$ 3.73          | \$ 3.26          | \$ 2.14          | \$ 1.90          |
|  | After Extraordinary Items . . . . .                            | \$ 4.52                    | \$ 3.73          | \$ 3.14          | \$ 1.66          | \$ 1.86          |
| Balance Sheet                            | Working Capital (Deficiency) . . . . .                         | \$ 21,090                  | \$ 53,470        | \$ 33,721        | \$ (16,884)      | \$ (2,736)       |
|  | Investment in Other Companies . . . . .                        | \$ 29,957                  | \$ 22,799        | \$ 28,113        | \$ 56,579        | \$ 79,614        |
|  | Property, Plant and Equipment — Net . . . . .                  | \$383,210                  | \$318,055        | \$289,185        | \$284,389        | \$174,262        |
|  | Long Term Debt (Less Current Maturities) . . . . .             | \$ 77,200                  | \$ 85,111        | \$ 72,600        | \$ 68,119        | \$ 32,466        |
|  | Deferred Income Taxes . . . . .                                | \$ 75,721                  | \$ 57,192        | \$ 49,918        | \$ 47,858        | \$ 31,974        |
|  | Minority Interest . . . . .                                    | \$ 12,307                  | \$ 12,968        | \$ 12,638        | \$ 12,880        | \$ 316           |
|  | Capital Stock . . . . .  | \$134,893                  | \$134,310        | \$133,897        | \$133,632        | \$133,573        |
|  | Retained Earnings . . . . .                                    | \$140,680                  | \$110,447        | \$ 85,115        | \$ 63,611        | \$ 54,167        |
| Exploration<br>and<br>Development        | Exploration Expenditures . . . . .                             | \$ 75,345                  | \$ 36,486        | \$ 20,199        | \$ 31,445        | \$ 17,720        |
|  | Development Expenditures . . . . .                             | \$ 17,359                  | \$ 17,319        | \$ 9,885         | \$ 3,745         | \$ 3,478         |
|  | Gross Exploration Acreage<br>(thousands of acres) . . . . .    | 34,363                     | 36,264           | 33,850           | 43,247           | 27,651           |
|  | Net Exploration Acreage<br>(thousands of acres) . . . . .      | 6,971                      | 7,451            | 7,976            | 11,797           | 7,340            |
|  |  |                            |                  |                  |                  |                  |
| Drilling Activity                        | Gross Working Interest Wells Drilled . . . . .                 | 166                        | 134              | 92               | 107              | 72               |
|  | Net Oil Wells . . . . .  | 10                         | 5                | 1                | 4                | 4                |
|  | Net Gas Wells . . . . .  | 25                         | 20               | 8                | 9                | 2                |
|  | Net Dry Wells . . . . .  | 17                         | 19               | 15               | 25               | 17               |
|  | (Excludes wells drilled by others<br>under farmout agreements) |                            |                  |                  |                  |                  |

## FIVE YEAR REVIEW / 1973 - 1977

|                                 |   | 1977     | 1976     | 1975    | 1974    | 1973    |
|---------------------------------|---|----------|----------|---------|---------|---------|
| Proven<br>Developed<br>Reserves | Crude Oil and Natural Gas Liquids                     |          |          |         |         |         |
|                                 | — thousands of barrels . . . . .                      | 129,416  | 140,816  | 152,725 | 166,593 | 155,701 |
|                                 | Natural Gas — Mmcf . . . . .                          | 785,324  | 758,578  | 782,570 | 810,822 | 726,228 |
|                                 | Sulphur — thousands of long tons . . . .              | 1,442    | 1,303    | 1,786   | 2,154   | 1,663   |
| Production<br>and<br>Operations | Crude Oil and Natural Gas Liquids                     |          |          |         |         |         |
|                                 | Production — barrels per day . . . . .                | 33,613   | 34,959   | 39,656  | 37,803  | 36,030  |
|                                 | Natural Gas Sales — Mcf per day . . . .               | 115,230  | 119,165  | 125,174 | 119,523 | 121,495 |
|                                 | Sulphur Sales — long tons . . . . .                   | 50,963   | 47,211   | 35,801  | 54,886  | 48,884  |
|                                 | Daily Average Gatherings — barrels                    |          |          |         |         |         |
|                                 | Cremona Pipe Line Division . . . . .                  | 41,386   | 40,978   | 43,759  | 46,517  | 45,817  |
|                                 | Federated Pipe Lines Ltd.<br>(50% owned) . . . . .    | 247,612  | 262,559  | 294,738 | 314,524 | 330,420 |
| Shares<br>and<br>Dividends      | Dividends Declared Per Class A Share .                | \$ 0.82½ | \$ 0.62½ | \$ 0.50 | \$ 0.50 | \$ 0.50 |
|                                 | Dividends Declared Per Class B Share .                | \$ 0.82½ | \$ 0.62½ | \$ 0.50 | \$ 0.50 | \$ 0.50 |
|                                 | Number of Shares Outstanding<br>(thousands) . . . . . | 8,202    | 8,176    | 8,157   | 8,144   | 8,142   |
|                                 | Number of Shareholders . . . . .                      | 10,592   | 11,779   | 12,570  | 11,200  | 11,100  |
|                                 |   |          |          |         |         |         |

NOTES: (1) Financial and operating results of Scurry-Rainbow Oil Limited are included from June 1, 1974.

(2) Earnings per share are calculated on the basis of average number of shares outstanding during the year.

(3) Above data incorporates retroactive adjustments.

(4) All dollar amounts are in thousands except per share figures.

### HEAD OFFICE

2300 Home Oil Tower,  
324 Eighth Avenue South West,  
Calgary, Alberta,  
T2P 2Z5  
403-232-7100

### AUDITORS

Thorne Riddell & Co.

### TRANSFER AGENTS

Crown Trust Company  
The Chase Manhattan Bank

### LISTINGS

Alberta Stock Exchange  
Montreal Stock Exchange  
Toronto Stock Exchange  
Vancouver Stock Exchange  
American Stock Exchange

### ACTIVE SUBSIDIARY COMPANIES

Foothills Oil and Gas Company, Limited  
Home Oil Australia Limited  
Home Oil New Zealand Limited  
Home Oil (U.K.) Limited  
Home Petroleum Corporation  
Oman Home Oil Limited  
Plains Petroleums Limited  
Scurry-Rainbow Oil Limited  
Scurry-Rainbow Oil (Sask) Ltd.  
Scurry-Rainbow (U.K.) Limited  
United Oils, Limited  
Westcoast Oil & Gas Corp.

### 50% OWNED COMPANY

Federated Pipe Lines Ltd.

### UNITED KINGDOM OFFICE

#### HOME OIL (U.K.) LIMITED

4/5 Grosvenor Place,  
London, SW1X 7JQ

### UNITED STATES OFFICES

#### HOME PETROLEUM CORPORATION

Executive Vice-President and  
General Manager: R. G. Watkins  
2600 North Loop West,  
Suite 400,  
Houston, Texas, 77092

#### MARKETING AND ADMINISTRATIVE DIVISIONS

Vice-President, Marketing: D. G. Reyburn  
P.O. Box 1649,  
5800 East Skelly Drive,  
Tulsa, Oklahoma, 74135

#### EXPLORATION AND PRODUCING DIVISIONS

Vice-President, Exploration: D. L. Brite  
Vice-President, Operations: G. B. Sullaway, Jr.  
2600 North Loop West,  
Suite 400,  
Houston, Texas, 77092





HOME OIL COMPANY LIMITED  
2300 Home Oil Tower  
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Calgary, Alberta, T2P 2Z5

Area Code: 403-232-7100

drilling has shown that this area will probably add significant natural gas volumes to the Company's reserves and discussions are currently underway aimed at early marketing of these reserves.

At Chisholm-Akuinu, in central Alberta, eight wells were drilled this past winter resulting in five natural gas wells and three dry holes; further drilling will be undertaken later in 1977. Initial production will begin in the first quarter of 1978 when a gas processing plant, under construction, will be completed. Production from this area will be expanded when the natural gas marketing situation improves.

#### British Columbia

Exploration in northeast British Columbia was confined to seismic and land acquisition. This area has impressive potential for hydrocarbon reserves and this, with an improved economic climate, justifies an active exploration program to which drilling will be added later this year.

Scurry-Rainbow Oil Limited, 86% owned by the Company, has made a natural gas discovery in the Cecil-Eagle area which will make a significant contribution to the Company's natural gas production prior to the end of 1977.

#### Mackenzie Delta

The final well in the Delta 5 program, Kurk M-39, was drilled to a total depth of 10,200 feet and abandoned March 9, 1977. The Delta 5 program was disappointing in that no encouraging amounts of oil and natural gas were encountered in the four wells drilled. The Mackenzie Delta area is being re-assessed as a result of this program.

#### United States

In the United States, principal exploration activity is being focused on the Gulf Coast region, both on and offshore. A land acquisition program on prospects in shallow water off the coast of Louisiana has essentially been completed and it is expected that deep drilling will be undertaken in the area later in the year. Elsewhere, drilling is being actively pursued or planned in Texas, Mississippi, Louisiana, Oklahoma and Wyoming.

Scurry-Rainbow expects to be drilling by early summer a follow-up well to a natural gas discovery in Utah.

#### U.K. North Sea

Home Oil is part of a group which was given a provisional award of two North Sea blocks in the United Kingdom's Fifth Round allocation. The award has been discussed with the British National Oil Corporation, an automatic 51% partner in Fifth Round awards, and it is expected that a meeting will be held with Britain's Department of Energy in the near future to negotiate a mutually acceptable work program on these blocks.

Further work by Scurry-Rainbow on the U.K. 3/7 Block has not yet been scheduled pending evaluation of recently acquired seismic data.

#### DIVIDEND

On April 27, 1977, the Board of Directors declared a semi-annual dividend of 37½ cents per share on both Class A and Class B shares of the Company, payable on July 1, 1977, to shareholders of record June 7, 1977. This rate is the same as that paid on January 1 of this year and is within the limitations imposed under the Anti-Inflation Regulations.

#### DIRECTORS

At the Annual Meeting, Directors re-elected to the Board were Anthony G.S. Griffin, George W. Carpenter, George E. Greber, J. Douglas Gibson, The Hon. Harry W. Hays, Henry F. LeMieux, Peter L. P. Macdonnell, W. Donald C. Mackenzie, Maurice P. Paulson, Ross F. Phillips, Arthur M. Shoults, Renault St-Laurent and William H. Zimmerman. Pursuant to the Company's retirement policy for Directors, five Directors did not stand for re-election. Newly-elected to the Board were Brian A. Carlisle of London, England, and A. Ross Poyntz of Toronto. The shareholders approved the reduction in the size of the Board from 18 to 15.

The Company records with deep regret the recent death of Mr. Renault St-Laurent, Q.C., LL.D., who served as a Director of your Company since 1966.



R. F. Phillips  
President and  
Chief Executive Officer

May 17, 1977  
Calgary, Alberta

FOR THE THREE MONTHS ENDED  
MARCH 31, 1977



## INTERIM REPORT TO SHAREHOLDERS



# HOME OIL COMPANY LIMITED

AND SUBSIDIARY COMPANIES

## TO THE SHAREHOLDERS:

### FINANCIAL

Net earnings for the first quarter of 1977 amounted to \$9,738,000 (\$1.19 per share) compared with \$8,145,000 (\$1.00 per share) for the comparable period in 1976.

Gross revenue increased 10% to \$34,947,000 during the first three months of 1977. The increase is primarily a result of crude oil and natural gas price increases occurring since the first half of 1976.

Net flow of funds from operations for the first quarter was \$20,361,000, an increase of 26% over the \$16,187,000 reported last year. The increased cash flow together with the Company's strong working capital position is more than adequate to meet its expanded 1977 capital program.

### PRODUCTION

Crude oil and natural gas liquids production decreased to 35,900 barrels per day from the 36,800 barrels per day produced in 1976. Natural gas sales amounted to 133,200 Mcf per day during the first quarter of 1977 compared to 140,900 Mcf per day during the same period in 1976. The decreases are a result of lower demand.

### DRILLING

During the period, the Company participated in 42 exploratory wells. This program resulted in one oil well, 12 gas wells, 19 dry holes, and 10 wells were still drilling at March 31.

Home Oil's development program resulted in the drilling of 37 wells, of which three were completed as oil wells, 22 gas wells, seven dry holes and five were still drilling.

### EXPLORATION

#### Alberta

A very active exploration program, consisting principally of seismic acquisition, was undertaken during the past winter within the Foothills and Deep Basin areas of Alberta. This program will lead to an active drilling program later in 1977 and 1978 in these areas, both of which have substantial potential for development of additional natural gas reserves. As of March 31, the Company was participating in six deep wildcats in these areas. Two of these wells are being drilled at Findley to follow-up the 1975 discovery and the 1976 delineation well. The Company has undertaken a more aggressive land acquisition posture in the Foothills and Deep Basin areas as evidenced by recent land acquisitions at Owl River and Wawa.

At Christina Lake, in east-central Alberta, the Company drilled seven tests during the recent winter drilling season, which resulted in six natural gas wells and one dry hole. This

## CONSOLIDATED STATEMENT OF EARNINGS

For the Three Months ended March 31, 1977  
(\$000's omitted)

|                                  | 1977          | 1976          |
|----------------------------------|---------------|---------------|
| <b>REVENUE</b>                   |               |               |
| Operating                        | \$32,955      | \$29,652      |
| Investment                       | 1,454         | 1,442         |
| Equity in earnings of affiliates | 538           | 577           |
|                                  | <u>34,947</u> | <u>31,671</u> |

|  |               |               |
|--|---------------|---------------|
| <b>EXPENSE</b>                         |               |               |
| Operating                              | 4,245         | 3,772         |
| General and administrative             | 2,139         | 2,503         |
| Depreciation                           | 5,922         | 5,943         |
| Interest and expense on long term debt | 1,053         | 967           |
| Other interest                         | 2,215         | 1,512         |
| Minority interest                      | 62            | —             |
|  | <u>15,867</u> | <u>14,848</u> |

|   |               |               |
|---|---------------|---------------|
| <b>NET EARNINGS before income taxes</b> | <u>19,080</u> | <u>16,823</u> |
|---|---------------|---------------|

|                                   |              |              |
|-----------------------------------|--------------|--------------|
| <b>PROVISION FOR INCOME TAXES</b> |              |              |
| Current                           | 5,400        | 7,073        |
| Deferred                          | 3,942        | 1,605        |
|                                   | <u>9,342</u> | <u>8,678</u> |

|                     |                 |                 |
|---------------------|-----------------|-----------------|
| <b>NET EARNINGS</b> | <u>\$ 9,738</u> | <u>\$ 8,145</u> |
|---------------------|-----------------|-----------------|

|                                 |                |                |
|---------------------------------|----------------|----------------|
| <b>BASIC EARNINGS PER SHARE</b> | <u>\$ 1.19</u> | <u>\$ 1.00</u> |
|---------------------------------|----------------|----------------|

|   |                |               |
|---|----------------|---------------|
| <b>FULLY DILUTED EARNINGS PER SHARE</b> | <u>\$ 1.17</u> | <u>\$ .98</u> |
|---|----------------|---------------|

|                            |                 |                 |
|----------------------------|-----------------|-----------------|
| <b>CASH FLOW Per share</b> | <u>\$20,361</u> | <u>\$16,187</u> |
|                            | <u>\$2.49</u>   | <u>\$1.98</u>   |

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Three Months ended March 31, 1977  
(\$000's omitted)

|                                 | 1977            | 1976            |
|---------------------------------|-----------------|-----------------|
| <b>FUNDS WERE OBTAINED FROM</b> |                 |                 |
| Operations                      | \$20,361        | \$16,187        |
| Issuance of capital stock       | 249             | 64              |
| Sale of investments and land    | —               | 581             |
|                                 | <u>\$20,610</u> | <u>\$16,832</u> |

|   |                 |                 |
|---|-----------------|-----------------|
| <b>FUNDS WERE USED FOR</b>                    |                 |                 |
| Property, plant and equipment                 | \$13,065        | \$ 8,893        |
| Repayment of long term debt                   | 3,225           | 3,475           |
| Investments and advances                      | 4,579           | 2,324           |
| Net increase in other non-current assets      | 508             | 370             |
|   | <u>21,377</u>   | <u>15,062</u>   |
| <b>Increase (decrease) in working capital</b> | <u>(767)</u>    | <u>1,770</u>    |
|   | <u>\$20,610</u> | <u>\$16,832</u> |

|   |             |             |
|---|-------------|-------------|
| <b>MAJOR BALANCE SHEET ITEMS (\$000's omitted)</b>    | <b>1977</b> | <b>1976</b> |
| Working Capital                                       | \$ 52,703   | \$ 35,491   |
| Investment and advances                               | 27,680      | 29,360      |
| Property, plant and equipment - net                   | 323,836     | 290,800     |
| Long term debt (less current maturities)              | 81,785      | 69,125      |
| Minority interest                                     | 13,199      | 12,751      |
| Accumulated tax reductions applicable to future years | 60,974      | 51,523      |
| Capital and surplus                                   | 254,744     | 227,221     |

|   |             |             |
|---|-------------|-------------|
| <b>PRODUCTION AND SALES</b>                     | <b>1977</b> | <b>1976</b> |
| Crude oil and natural gas liquids (barrels/day) | <u>1977</u> | <u>1976</u> |
| Gross   | 35,900      | 36,800      |
| Natural gas (Mcf/day)                           | 133,200     | 140,900     |
| Sulphur (long tons)                             | 22,300      | 16,800      |
| Gross   |             |             |

NOTE: The investment in Panarctic Oils Ltd. has been recognized as a joint venture exploration expenditure and the tax deferral emanating therefrom is charged against earnings. The only reduction in the tax provision as a result of the investment arises from the increased depletion allowance.

significant Devonian reef gas discovery offsetting Home Oil leases. Home and its partners recently acquired another license in the area for a price of \$8.2 million, Home's interest being 20%. The deep Devonian test is expected to spud on these licenses immediately.

The Pembina area of west-central Alberta, in which oil production was first established in 1954, has recently been the scene of what could be significant oil and natural gas discoveries by other operators in sparsely tested deeper zones. Home Oil has conducted a seismic program in the area and is drilling an initial deep test on a farmout lease. A second well is also expected to commence immediately.

An intensive seismic acquisition program was undertaken in the Alberta foothills during the past 12 months and our first well, located in the Brule area, will be spudded later this summer.

#### British Columbia

Scurry-Rainbow Oil Limited, 86% owned by the Company, plans to operate two drilling rigs on its exploration and development acreage in the Fort St. John area through the balance of this year in a continuing program of follow-up drilling to discoveries made last year in the Eagle area.

#### U.K. North Sea

Home Oil is part of a group which has been awarded two North Sea blocks in the United Kingdom's Fifth Round allocation. A work program has been agreed to with Britain's Department of Energy and the first part of this program, a 330 kilometer marine seismic survey, is expected to be underway in the third quarter. The Home Group has committed to a well to be drilled on these blocks some time within the next seven years.

Scurry-Rainbow is a part of a group which has contracted for a semi-submersible rig to commence drilling mid-August on a line well in the southern portion of U.K. Block 3/7.

#### Thailand

In well 15-B-5X eleven separate tertiary sand zones were tested and the cumulative rate of production of such separate tests was 76.5 Mcf of gas per day with 1,022 barrels of condensate per day and 651 barrels of 43.6 degree A.P.I. oil. Further evaluation of the project involves a 1,580 kilometer marine seismic program which will commence in late August. It is anticipated that preliminary natural gas contract negotiations with the Government of Thailand will be undertaken later in 1977.

#### MINING

##### Coal

At Elk River, British Columbia, where the Company and Scurry-Rainbow have a 25% interest, work on the Phase 2 feasibility study is progressing favourably with a report to be

delivered to the British Columbia Government later this year. It is anticipated that approval of the project will be made in early 1978.

At Grassy Mountain, Alberta, discussions are still underway with the Alberta Government which could lead to the establishment of a mining operation.

#### Metals

At the Gooseberry Mine in Nevada, milling of the ore dump is proceeding with the first silver/gold precipitate being shipped in July. Underground development continues and it is anticipated that the mine and mill will be fully operational in September.

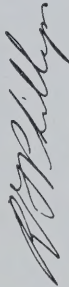
Production from the Santa Rita Mine in Mexico, operated by Scurry-Rainbow, has not become fully operational due to continuing start-up problems with the operations of the mill.

#### OTHER

On August 17, 1977, Home reported the cancellation of the previously announced transaction whereby The Consumers' Gas Company was selling to Home all of its proven and exploratory properties in the Province of Saskatchewan, Alberta and British Columbia and receiving non-voting Class A shares of Home for the purchase price of the properties. An independent evaluation of the properties had previously been prepared by Sproule Associates Limited. McDaniel Consultants (1965) Ltd. were retained to provide a second independent evaluation. Preliminary indications from that firm indicated differences from the first evaluation. In view of these differences of opinion and having regard to the relationship between Consumers' and Home, the parties agreed to the cancellation of the transaction.

The following executive appointments were made in August: J.P. Crone was appointed Group Vice-President, Corporate; J. H. Geddes, Group Vice-President, Operations; and W. H. Waddell, Group Vice-President, Exploration.

August 17, 1977  
Calgary, Alberta

  
R.F. Phillips  
President and  
Chief Executive Officer



## INTERIM REPORT TO SHAREHOLDERS

## FOR THE FIRST HALF OF 1977

2300 HOME OIL TOWER  
324 EIGHTH AVENUE S.W.  
CALGARY, ALBERTA  
T2P 2Z5

AUGUST 17, 1977



# HOME OIL COMPANY LIMITED

AND SUBSIDIARY COMPANIES

## TO THE SHAREHOLDERS:

### FINANCIAL

Net earnings for the first half of 1977 amounted to \$17,328,000 (\$2.12 per share) compared with \$13,716,000 (\$1.68 per share) for the comparable period in 1976.

Gross revenues increased 12% to \$66,257,000 during the first half of 1977. The increase is primarily a result of crude oil and natural gas price increases.

Net flow of funds from operations for the first half was \$43,250,000, an increase of 46% over the \$29,675,000 reported last year. Cash flow was favourably affected by reduced income taxes payable as a result of the Company's 1977 commitment to Panarctic Oils Ltd. being advanced in the first half of the year.

The Company's 1977 exploration and development program increased from \$76,000,000 to \$86,000,000, primarily as a result of an expanded exploration program in western Canada. An additional \$8,000,000 will be expended on a potential producing property acquisition in the United States, currently under negotiation. This brings the total 1977 capital program to \$94,000,000.

### PRODUCTION

Crude oil and natural gas liquids production for the first half of 1977 decreased to 34,200 barrels per day compared to 35,400 barrels per day in 1976. Natural gas sales amounted to 123,200 Mcf per day compared to 129,200 Mcf per day in 1976. The decreases are primarily a result of lower demand.

During the period the Company participated in 59 exploratory wells. This program resulted in one oil well, 18 gas wells, 26 dry holes and 14 wells were still drilling at June 30.

Home Oil's development program resulted in the drilling of 56 wells, of which six were completed as oil wells, 31 gas wells, seven dry holes and 12 were still drilling.

### EXPLORATION

#### Alberta

The Company has participated in a number of exploration groups in the Deep Basin area of Alberta which have been successful in acquiring exploration licenses in areas with significant exploration potential. Two of these licenses are in the Hanlan-Owl River area of west-central Alberta and may be tested later this year. Last year, another operator made a

## CONSOLIDATED STATEMENT OF EARNINGS

For the Six Months ended June 30, 1977  
(\$000's omitted)

|                                  | 1977          | 1976          |
|----------------------------------|---------------|---------------|
| <b>REVENUE</b>                   |               |               |
| Operating                        | \$63,084      | \$55,753      |
| Investment                       | 2,582         | 2,879         |
| Equity in earnings of affiliates | 591           | 374           |
|                                  | <u>66,257</u> | <u>59,006</u> |

|  |               |               |
|--|---------------|---------------|
| <b>EXPENSE</b>                         |               |               |
| Operating                              | 8,657         | 8,102         |
| General and administrative             | 4,759         | 4,846         |
| Depreciation                           | 12,736        | 11,449        |
| Interest and expense on long term debt | 1,998         | 1,948         |
| Other interest                         | 4,319         | 3,024         |
| Minority interest                      | 96            | —             |
|  | <u>272</u>    | <u>295</u>    |
|  | <u>32,837</u> | <u>29,664</u> |

|   |               |               |
|---|---------------|---------------|
| <b>NET EARNINGS before income taxes</b> | <u>33,420</u> | <u>29,342</u> |
|---|---------------|---------------|

|                                   |               |               |
|-----------------------------------|---------------|---------------|
| <b>PROVISION FOR INCOME TAXES</b> |               |               |
| Current                           | 5,226         | 12,705        |
| Deferred                          | 10,866        | 2,921         |
|                                   | <u>16,092</u> | <u>15,626</u> |

|                     |                 |                 |
|---------------------|-----------------|-----------------|
| <b>NET EARNINGS</b> | <u>\$17,328</u> | <u>\$13,716</u> |
|---------------------|-----------------|-----------------|

|                                 |         |         |
|---------------------------------|---------|---------|
| <b>BASIC EARNINGS PER SHARE</b> | \$ 2.12 | \$ 1.68 |
|---------------------------------|---------|---------|

|   |         |         |
|---|---------|---------|
| <b>FULLY DILUTED EARNINGS PER SHARE</b> | \$ 2.07 | \$ 1.65 |
|---|---------|---------|

|                            |                |                |
|----------------------------|----------------|----------------|
| <b>CASH FLOW PER SHARE</b> | \$43,250       | \$29,675       |
|                            | <u>\$ 5.28</u> | <u>\$ 3.64</u> |

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Six Months ended June 30, 1977  
(\$000's omitted)

|                                 | 1977             | 1976             |
|---------------------------------|------------------|------------------|
| <b>FUNDS WERE OBTAINED FROM</b> |                  |                  |
| Operations                      | \$ 43,250        | \$ 29,675        |
| Long term borrowings            | —                | 1,536            |
| Issuance of capital stock       | 323              | 115              |
| Sale of investments and assets  | 1,520            | 2,167            |
| Repayment of advances           | 304              | —                |
|                                 | <u>\$ 45,397</u> | <u>\$ 33,493</u> |

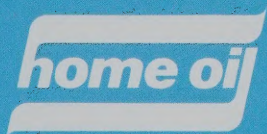
|  |                  |                  |
|--|------------------|------------------|
| <b>FUNDS WERE USED FOR</b>               |                  |                  |
| Property, plant and equipment            | \$ 32,370        | \$ 23,148        |
| Repayment of long term debt              | 6,724            | 6,253            |
| Investments and advances                 | 11,912           | 3,147            |
| Net increase in other non-current assets | 808              | 5                |
| Dividends                                | 3,074            | 2,041            |
|  | <u>54,888</u>    | <u>34,594</u>    |
| Decrease in working capital              | <u>9,491</u>     | <u>1,101</u>     |
|  | <u>\$ 45,397</u> | <u>\$ 33,493</u> |

|   |             |             |
|---|-------------|-------------|
| <b>MAJOR BALANCE SHEET ITEMS (\$000's omitted)</b>    | <b>1977</b> | <b>1976</b> |
| Working Capital                                       | \$ 43,979   | \$ 32,620   |
| Investment and advances                               | 34,187      | 30,398      |
| Property, plant and equipment - net                   | 334,158     | 298,549     |
| Long term debt (less current maturities)              | 78,286      | 67,784      |
| Minority interest                                     | 13,240      | 12,893      |
| Accumulated tax reductions applicable to future years | 67,832      | 52,839      |
| Capital and surplus                                   | 259,334     | 230,842     |
|   | <u>1977</u> | <u>1976</u> |

|   |         |         |
|---|---------|---------|
| <b>PRODUCTION AND SALES</b>                       |         |         |
| Crude oil and natural gas liquids (barrels / day) | 34,200  | 35,400  |
| Gross   |         |         |
| Natural gas (Mcf / day)                           | 123,200 | 129,200 |
| Gross   |         |         |
| Sulphur (long tons)                               | 31,400  | 31,500  |
| Gross   |         |         |

NOTE: The investment in Panarctic Oils Ltd. has been recognized as a joint venture exploration expenditure and the tax deferral emanating therefrom is charged against earnings. The only reduction in the tax provision as a result of the investment arises from the increased depletion allowance.

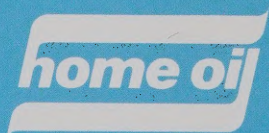




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Calgary, Alberta, T2P 2Z5

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